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F. M. Taylor

OUTLINE OF LECTURES

UPON

POLITICAL ECONOMY,

PREPARED FOR THE USE OF STUDENTS AT THE JOHNS
HOPKINS UNIVERSITY, BALTIMORE, MD., AND
THE UNIVERSITY OF MICHIGAN,
ANN ARBOR, MICH.

By HENRY CARTER ADAMS, Ph. D.

BALTIMORE, 1881.

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NOTE.

THIS Outline of Lectures has been prepared for the use of students following the course upon Political Economy. Its purpose is to save time and manual labor, which would otherwise be required in writing dictations during the lecture hour, and to serve as a guide for study. It will be found to be sufficiently extended for an advanced course of instruction, while at the same time, by a proper method of selection, it may be used with advantage in preliminary class work. For the purpose of economizing space, it has been thought best not to insert the complete title of books referred to, but to give the name of the author only; the title of the book being found in the list of authorities cited. In case several books by the same author are used, the letters (a), (b), or (c), attached, will indicate which is intended. It is recommended to those who purpose taking up this study, to provide themselves with the following reference books, given in order of their importance:

(1.) John Stuart Mill, Principles of Political Economy.
(2.) J. E. Cairnes, Some Leading Principles of Political Economy Newly Expounded.
(3.) Chapin–Wayland, Elements of Political Economy.
(4.) J. E. Cairnes, Logic of Political Economy.
(5.) Roscher, National Economy. (Translated.)
(6.) E. P. Smith, Elements of Political Economy.

To obviate the expenditure of too much money on the part of any one student, it is suggested that a number of students club together, each buying one of the above books; or that the Societies, provided with conveniences for reading, procure the set as Society property.

PART I. HISTORICAL.

DEVELOPMENT OF ECONOMIC THOUGHT SINCE 1550.

§ 1. There are certain advantages in beginning the study of Political Economy with a sketch of economic thought. The true nature and spirit of the study are thereby most clearly set forth; its connection with legislation made apparent; and, by tracing the historic development of economic ideas, the continuity of the study will be discerned, even in the hands of conflicting schools. Previous to the sixteenth century, Europe shows little which may be properly termed economic thought. That which did exist is to be found in the Canonical Law, in the maxims accepted by feudal princes for the control of their estates, and in the rules and customs of the Guilds.

This state of things is explained by the supremacy of the Catholic Church; the subordination of the industrial to the political organization; the condition of law respecting persons, property and class rights, and, in consequence, the slight development of the principle of division of labor. For study of this period compare: History of Political Economy, by Blanqui; Geschichte der volkswrithschaftlichen Literatur im Mittelalter, by Contzen; Geschichte der National-Oekonomie in Deutschland, by Roscher.

A.—The Mercantile System.

§ 2. With the sixteenth century, there began a literature upon industrial topics which has continued in unbroken development to the present time. It was at first composed of a series of maxims and laws concerning trade, but these, being formulated through discussion and thrown into logical connection with each other, came to be known under the name of The Mercantile System.

The humanistic spirit of the Renaissance; the inventions, discoveries, and consequent extension of trade explain the rise of this literature.

The writers of this school are: in Spain — Serra; in France — Melon, Forbonnais; in England—Mun, Child, Petty, North, Stewart. Stewart (1767) systematized the ideas of the school.

The great statesmen of Mercantilism are Cromwell, Colbert, Friedrich Wilhelm I., and Friedrich II.

For a study of this system, see A. Smith, B. IV., ch. I.— Travers Twiss, Lectures I, II, III, IV.—Blanqui, ch. XXVI.—Cossa, Historical Part, ch. III. —Mill, Preliminary Remarks.—McCulloch, (a) Part First.

§ 3. The Fundamental Conception of this system was that the precious metals alone constitute wealth, and that a nation was rich or poor according as it possessed within its territorial boundaries large or small quantities of these metals. Among the reasons for the ready acceptance of this idea may be given the following:—

(a) The nature of the metals themselves and their use among settled peoples as money.

(b) The influence of the discovery of America and the ocean passage to India.

(c) The idea of absolutism in the state.

Compare Steuart, B. II., ch. III. Money "is an adequate equivalent for everything." John Law's banking plan was based upon the idea that industry is limited by the amount of money in a country.

§ 4. Among the Practical Doctrines which found place in this system were the following:—

(a) That it was the height of statesmanship to guard the precious metals.

(b) That colonies containing mines were of all the most to be desired; after these, those producing raw material for manufactures.

The Spanish war of 1740 was in part the result of this doctrine.

(c) That what one nation gains in trade is at the expense of the other trading nation.

Compare Steuart, B. II. ch. V. and XXIX.

(d) That whatever tends to increase the nation's stock of gold must advance the industrial condition of each citizen of the state.

(e) That no money transaction in the country could possibly affect its economic standing.

Illustrate from common ideas respecting public debts.

§ 5. The spirit of this system appears most clearly, in a study of the legislative acts and industrial changes which it effected. Of these practical results six may be mentioned.

(a) Many laws were passed for the purpose of hindering the efflux and encouraging the influx of the precious metals.

Mercantilism passed through two stages. In the first, the exportation of the precious metals was prohibited by law; in the second, the "balance of trade" theory was made the basis of commercial enactments. The development of these laws may be best studied in the history of the East India Company. The defense of free exportation found in "England's Treasure by Foreign Trade," 1664, by Thomas Mun. Compare Steuart, B. II., ch. XXIII, XXIV, XXV.

(b) The colonial system was the result of accepted commercial doctrines.

Compare A. Smith, B. IV., ch. VII., § III., also, Sheffield's Observations. For England's policy with regard to the American colonies, see "History of Europe in the Eighteenth Century" by Lecky, v. II., p. 7,—with regard to Ireland, the same, p. 206.

(c) Agriculture was almost totally neglected.

A distinction was made between food producing and raw material producing agriculture. Laws of Colbert as touching agriculture. Compare Stewart, B. I., ch. XIV.

(d) Duties were established for other than revenue purposes, and commerce was placed under numberless restrictions.

These laws are the best illustrated in Colbert's system; See Blanqui, ch. XXVI; Travers Twiss, Lecture III. For Cromwell's Navigation Act, see McCulloch's edition of A. Smith, Note XII. Relation of this discriminating policy to modern protection.

(e) It effected a quite universal establishment of the banking system.

(f) Laws were passed encouraging the increase of population.

Compare Roscher, § 255, 256, 257. French and German laws on marriage, birth and migration. English poor laws. Laws for encouragement of population. Population question as treated by Steuart. Compare B. I.

B.—The Physiocrats.

§ 6. By the middle of the eighteenth century, the system of political privileges and industrial supervision had reached the full extent of its possible development. The failure of Law's bank, which had been supported for the most part by advocates of Colbert's policy, and the growing wretchedness of the agricultural classes, had produced criticism from many writers in France. These criticisms were, however, at first addressed to particular doctrines and practices, and it was not until 1758, by the appearance of Quesnay's "Tableau économique" that the foundation for a new economic system was laid. The school of liberal writers which looked to Quesnay as their teacher, took the name of Economists or Physiocrats.

The writers of this school are Quesnay, ("Tableau économique," 1758, and "Physiocratie, ou constitution naturelle du gouvernement le plus avantageux au genre humain," 1768), Gourney, Mercier de la Rivière, (translated by Jefferson.) For full list of bibliography see Cossa, Historical Part, ch. IV. Turgot was the statesman advocate, and Neckar the statesman opponent of this school. For a study of their doctrines, comp. Blanqui, ch. XXXII and XXXIII. A. Smith, B. IV., ch. IX. Twiss, Lecture V. Encyclopædia Britannica — Article, "Economists." Turgot, Philosophe Economiste et Administrateur, by Batbie, Paris, 1861.

The points of contrast between this system and Mercantilism are the following:

First, Theory precedes practice; the system is aggressive, not defensive.
Second, Agriculture is estimated more highly than manufactures.

Third, Industrial freedom is preferred to state guardianship. Many expressions in favor of industrial freedom may be found in Steuart.

§ 7. The Fundamental Conception of this system is, "The soil is the source of all wealth," from which it follows that the products of the soil alone constitute wealth.

Two reasons may be assigned for the ready acceptance of this idea in France.

(a) Landed values alone were observed to remain stable in the midst of the universal ruin, which followed the failure of Law's banking scheme. Compare Blanqui, ch. XXXII.

(b) This idea and all that flowed from it, were in harmony with the French philosophy of Nature.

§ 8. The Economic Doctrines of this school may be reduced to the five following:

(a) Agriculture is the only productive industry.

The classes of society recognized were: landed proprietors; farmers and land laborers; manufacturers and merchants. This latter class was considered unproductive. Compare A. Smith, B. IV., ch. IX.

(b) The entire revenue of the state ought to be raised by means of a single tax upon the net product of land.

(c) Regulations by the state, respecting trade and industry, can only be detrimental.

This was a direct attack upon the laws of Colbert.

(d) The presence of money in a country was the effect, not the cause of industry.

Buoisgillebert emphasized this doctrine, which was a direct attack upon the economic basis of John Law's banking scheme.

(e) The true criterion of the riches of a state is the riches of the citizens.

"Pauvres paysans, pauvre royaume; pauvre royaume, pauvre roi," was Quesnay's motto. The practical effect of these doctrines was slight; owing, in part, to the character of the men who advocated them, but explained more fully by the advent of the Revolution and the rise of English economy. Whatever practical effect the doctrines had, is found in Turgot's administration. The great work of the Physiocrats was to prepare the way for English Economy.

C.—ENGLISH ECONOMY.

§ 8. There was, during the eighteenth century, the same occasion for a revolt against the Mercantile System in England as in France. That it did not come so quickly may be explained, partly by the character of the English people and their customs of thought, but more satisfactorily by the fact that the commercial interests of England were much greater than those of France. The founder of English political economy is Adam Smith, who published, in 1776, a work entitled "An Inquiry into the Nature and Causes of the Wealth of Nations."

For a sketch of the life of Adam Smith compare introduction to Rogers' or McCulloch's edition of his works.

The relation of his great work to his previous works, to the system of economy which has been built upon it, and to the civilization of the nineteenth century, may be found treated in Bagehot, (a) pp. 95–134,—Buckle, History of Civilization, v. III., pp. 304–322.

§ 10. The Fundamental Conceptions upon which Adam Smith's Economy is based, are two, the one of which is purely economic, the other govermental, in its character.

(a) Labor is the real source of wealth, the "ultimate price which is paid for everything." From this conception there flow certain important doctrines.

(1) All labor which effects an increased value of commodities, is productive.

Smith's doctrine of productive labor is found B. II., ch. III. This was opposed to the Physiocrats.

(2) Labor is the measure of value.

Relation of this doctrine to Socialism. For the denial of this doctrine, it is not necessary to deny that labor is the real source of wealth.

(3) Whatever increases the efficiency of labor increases the producing power of a people.

(b) Individual effort is entirely sufficient for the organization and maintenance of all desirable industrial enterprises. This idea of individual sufficiency led to those doctrines of individual liberty in industries, which characterize English Political Economy. These doctrines are:

(1) The Functions of the State should be confined to the providing of protection for all citizens.

Origin of the adage, "Laissez faire et laissez passer"; its meaning, and the propositions of which it is the conclusion.

(2) The surest means of discovering and of employing the most productive method, is to grant perfect freedom to labor and enterprise.

(3) Free competition is the surest agent for harmonizing conflicting interests, and, through its agency, does society attain its highest good.

§ 11. The names intimately connected with Adam Smith in the establishment of English Political Economy are, Malthus, Ricardo, J. S. Mill, and J. E. Cairnes.

(a) Robert Malthus added the Doctrine of Population.

This doctrine foreshadowed by Stewart. The prevalent ideas respecting population. Sketch of the early life of Malthus. His doctrine a revolt against the optimism of Rousseau. Compare Bagehot, (a) p. 135. Difference in the 1798 and the 1806 edition. Malthusianism is the best stated by Mr. Bagehot in the following three propositions:

First, That population would soon outstrip the means of feeding it, if it were not kept down by vice, misery or self-restraint.

Second, That in a state of society where self-restraint does not act at all, or only acts so little that we need not think of it, population will augment till the poorest class of the community have only just enough to support life.

Third, That in a community where self-restraint acts effectually, each class of the community will augment till it reaches the point at which it begins to exercise that restraint.

(b) English economy is under obligation to David Ricardo for four important services.

(1) He was the first to insist upon the importance of the problem of distribution, and of class relations as a factor in that problem.

Relation to modern Socialists. His classification, how different from that of Quesnay. Compare preface to his work.

(2) He stated the true law of rent under a system of free competition among farmers, and thereby disclosed the true doctrines of rent and of natural value.

"Rent is that portion of the produce of the earth, which is paid to the landlord for the use of the original and indestructible powers of the soil." Ricardo, ch. II. For the development of this idea of rent see Cairnes, (a) Lecture VIII.

(3) Ricardo added the law of the distribution of the precious metals.

See pamphlet "On the High Price of Bullion," 1809, also Walker, (b) p. 48.

(4) He added much to the Science of Finance in his studies upon the incidence of taxes.

See Ricardo, chs. VIII to XVIII.

Ricardo's influence upon method in Political Economy, was to render the study more scientific. For a comparison with A. Smith, see Shadwell, p. 13 also Bagehot, (a) p. 151.

(c) John Stuart Mill holds the same relation to English Economy that Steuart in England and Melon in France hold to Mercantilism. He reduced it to a system; he is its formulator. He also added what has since come to be known as the "wage-fund theory."

This wage fund theory is, that current wages depend upon the proportion which exists between the number of laborers and the amount of capital set aside for their payment. It is not at present necessarily considered a part of English Economy. Attacked by Longe 1866; by Thornton 1869; by Walker 1878; by George 1880. Its most able defender is Prof. Cairnes.

Mill's great service is that of throwing English Economy upon the defensive, thus inviting criticism and rendering further development possible.

D.—REVOLT AGAINST ENGLISH POLITICAL ECONOMY.

A chronological study of the development of economic thought cannot, with advantage, be further pursued. It will therefore give place to a study of the criticisms under which this revolt has been carried on, arranged merely for clearness and convenience of presentation. These criticisms disclose a distrust either of the methods followed by English Economists or of the doctrines embodied in their writings.

§ 12. With regard to Method of Study adopted, three classes of criticisms have been submitted.

(a) That the phenomena of industrial society are not capable of scientific treatment.

Compare Price (a) ch. I. The error of this criticism is disclosed when one understands what scientific method embraces, and what Political Economy is. Compare Ingram, "The Present Position and Prospect of Political Economy," p. 8, also Cairnes (a) Lecture I.

(b) The second class of critics upon method, admit that the phenomena studied are capable of scientific treatment, but claim that they are not sufficiently independent so that from them an independent science may be formed. It is the wish of these to make Political Economy a chapter in the general science of society or Sociology.

This is the purpose of Ingram's pamphlet above cited. As against Comte, see Cairnes (c) Essay VIII.

(c) The third criticism is that the historical method of study does not receive adequate attention at the hands of English Economists.

This is valid against Ricardo, Senior, and Mill, but not against Smith or Malthus. Upon this criticism has been founded an "Historical School" of economy. Hildebrand, Roscher, Knies. Compare essay by Wolowski in American translation of Roscher. Though not sufficient for the basis of a school, this an important criticism.

Political Economy should be studied historically for three reasons:

(1) To learn more thoroughly the true nature of man, which is one of the most important economic facts.

(2) To learn to study the present in a purely objective manner.

(3) To guard against the acceptance of inadequate reforms.

§ 13. Criticisms upon the Doctrines of English Economy are all based upon a denial of the second fundamental conception of Adam Smith, namely: that of individual sufficiency. These criticisms have been urged most strongly in Germany and made the basis of the newest German Economy.

Roscher, known through translation, does not represent German economic thought. Schäfle of Vienna, Wagner of Berlin, Held of Bonn. Not Socialists as that word is generally understood, more properly termed liberal economists.

The general doctrine of individual sufficiency being denied, a denial of the secondary doctrines based upon it must necessarily follow. This class of critics refuse to accept:

(a) That the State should be debarred from undertaking industrial enterprises.

This conclusion is arrived at either by extending the proper state functions beyond mere protection, or by urging that adequate protection against monopolies, based upon great capitals, can only be ensured through the assumption of industrial functions by the State.

(b) That free competition is necessarily just in its distribution of products.

(c) That each individual, in following his own interests, thereby necessarily promotes the interest of Society, viz., the enlightened-self-interest theory is flatly denied.

(d) That society should be considered merely as an aggregation of individuals, but it is claimed that society should be studied as an organism.

PART II. BASIS OF POLITICAL ECONOMY.

DEFINITIONS AND FUNDAMENTAL CONCEPTIONS.

The Books which should form a part of a complete library upon Political Economy are the following:—

JOHN STUART MILL, Principles of Political Economy, with some of their applications to Social Philosophy, first published in 1847.

J. E. CAIRNES. Some Leading Principles of Political Economy Newly Expounded, also Logic of Political Economy.

JOSEPH GARNIER, Traité d' Economie Politique, eighth edition, 1880.

WILHELM ROSCHER, Grundlagen der Nationalökonomie. (Translated.)

J. L. SHADWELL, A System of Political Economy, 1877.

CHAPIN-WAYLAND, The Elements of Political Economy, 1878.

HENRY C. CAREY, Principles of Social Science, 1878.

E. P. SMITH, A Manual of Political Economy, 1873.

RAU-WAGNER, Lehrbuch der politischen Oekonomie, especially vol. I.

A.—DEFINITION OF POLITICAL ECONOMY.

§ 14. Political Economy, as a university discipline, embraces both the Science and the Art of Industrial Society. The great purpose of this study is to determine a scientific and rational basis for the formation and government of Industrial Society. A comparison of this with other definitions will be its best explanation and show the true sense and purpose of these lectures.

(a) By far the largest number of writers define Political Economy as the Science of Wealth.

Mill, v. I., p. 17.—Shadwell, ch. I.—Wayland, Elements, 1849, Introduction. Cairnes (a) Lecture I.

The difference noticed is that Industrial Society is substituted for Wealth. In support of this change three considerations are submitted.

(1) Attention is drawn from the thing wealth, to the combination of forces engaged in its production. German and English Economy compared. Carey's position.

(2) This definition is more comprehensive.

(3) It permits under the same discipline a union of theory and practice.

(b) A second class of definitions accept value or exchanges as the subject of study.

J. R. McCulloch, (a) ch. I.—Perry, ch. I. This is incomplete.

Compare Mill, B. III., ch. I.

(c) In essential harmony with the definitions submitted are the following:—

Garnier, p. 5. "Political Economy or Economics is the science of the natural laws of labor or of human industry."

Thomas Cooper, Lectures on Political Economy, S. C. 1826. "Political Economy treats of the sources and acquisition of wealth; of its prudent distribution; of its consumption, and its accumulation.

Chapin-Wayland, p. 4.

§ 15. Since the study of Industrial Society is to be scientific, it is of importance to learn exactly what this method includes. This method of inquiry, for the economist, may be reduced to three forms.

(a) A purely objective study of the structure and forces of the exterior world, in accordance with which all industrial activity, if successful, must be carried on.

The purpose of the study must set its proper limit. Compare Cairnes (a) Lecture II.

(b) A purely objective study of the nature of man, with which all artificial regulations must be in harmony.

Studied by direct observation; by means of history; by means of statistics. Caution upon too great reliance upon statistics.

(c) A study of the legal structure, or artificial conditionings of society, which, while they continue, act or tend to act as laws of nature.

This study is rejected by many economists, but wherever rejected, Economy has lost its authority. There is no difference between a fact of law and a fact of nature, as regards the economic effect, except in degree, e. g., Land is a natural fact; private property in land is a legal fact. While the latter remains it is as potential a factor in industrial society as the farmer. Law embraces the potential ideas of a society.

Two corollaries spring from the foregoing statements.

(1) Every economic fact may be considered either as necessary or chosen.

(2) Economic laws and doctrines may be subject to a development corresponding to the development of society to which they apply.

§ 15. The study of Political economy embraces the Art as well as the Science of Industrial Society. Art is the "logic of practice," (Mill) and the introduction of Art of Industrial Society into economic study, requires that, in the arrangement of its truth, convenience of practice as well as of thought be considered.

Compare Mill, Logic, B. VI., ch. 12. for the relation of Science and Art; also Cossa, ch. I., II., who brings out the same idea under Pure and Applied Economics. All economic study may be reduced to the four questions: What is? What should be? What means should be adopted to secure the desired reform? Can it, under existing conditions, be secured? Thus considered, Political Economy forms the basis of rational reform.

B.—THE SOURCES AND LIMIT OF ACTIVITY IN INDUSTRIAL SOCIETY.

§ 16. Society, organized for the prosecution of industries, must be organized in accord with, as it is on account of, man's economic nature. The most important fact for the economist is, that man is a being of varied and numerous wants. An economic want is a desire combined with the intention of satisfying that desire. These wants are too numerous to be named, but may be classified according to the grade of satisfaction for which they call, as follows:—

(a) Those imposed by the conditions of existence.

(b) Those imposed by the demands of the social circle in which one moves.

(c) Those which luxuries alone can satisfy.

The first are the most persistent, and shared by men in common with animals. The second and third are peculiar to man and vary according to social standing.

Compare Roscher, § 1. Mill, Preliminary Remarks. Chapin-Wayland, p. 4. Rau-Wagner, v. I., ch. I.

The desire common to all men to satisfy their wants, is the potent force or mainspring of industrial society. That every one desires and endeavors to better his own economic condition or to hold that already attained, is a universal truth.

This force, commonly called self-interest, differs from selfishness, Roscher, § 11; does not work as a natural force, but is guided and controlled. It can only work through men, causing activity which is called labor, and labor is always bound up with pain and sacrifice.

§ 17. That which opposes this economic tendency to activity, and obstructs the force self-interest in its complete working, is desire for ease and desire for present gratification. These may be called counter forces; the actual labor undertaken, being the resultant of the opposing tendencies.

From this study of man's economic nature, the laws of economic action may be derived.

(1) Unless the desire for the satisfaction of felt wants be greater than the desire for ease, no labor will ensue. There is, therefore, in human nature a limit to labor, independent of the limit set by physical strength.

(2) Of various methods for securing a given satisfaction that deemed the least laborious will be chosen.

C.—TERMS EMPLOYED IN POLITICAL ECONOMY.

§ 18. Wealth, Property, Riches. These three terms taken together, embrace the entirety of a conception which is frequently attached to each word alone; hence the bounding of each term will be conducive to accuracy of expression.

(a) Wealth embraces all things capable of satisfying temporal desires.

New Englander, Jan. 1877, Article by Prof. J. B. Clark. Roscher, § 1 to 7. Mill, v. I., p. 23. Garnier, § III. Shadwell, B. I., ch. I.

Points of dispute between these authorities.

A conception of wealth, for employment in economic discussion, may be advantageously restricted to conformity with the three following conditions:—

(1) It must be the result of labor.

A. Smith, B. I., ch. V. McCulloch (a) Part II., Section I. Gratuitous gifts of nature, as air, water, land, chemical and mechanical forces are not economic wealth. Why land is excluded. Economic differences, as productive agencies between land and machines. Defense of this return to the *spirit* of Ricardo and Smith.

(2) It must be recognized as capable of satisfying human desires.

Carey (a) v. I., p. 181. Things are capable of gaining and losing their character of economic wealth, either by discoveries of new properties or development of man's wants.

(3) It must be capable of exchange upon the market, for which purpose legal appropriation is a necessary attendant fact.

McLeod, Elements of Banking, p. 2. This is the English idea. How wharfs, public buildings and street pavements are to be recognized.

Economic wealth is either material or immaterial. The former is the result of labor expended in embodying utilities in matter; the latter consists of utilities, the result of labor, not fixed or embodied in any object.

With respect to material wealth, compare Mill, B. I., ch. III., § 3, 4, 5, also Roscher, § 3. Criticism upon Mill. Comparison of Say and A. Smith. Utilities may be embodied in matter by changing its form or its place. Concerning immaterial wealth, compare Garnier, ch. II., § III. Perry, p. 119. Chapin-Wayland, p 10. Carey (a) v. I., ch. V. Consideration of various classes in society.

(b) Property is the right granted by law, of ownership in, and hence control over anything.

"A legal right exists where the one course of action is enforced, and the other prohibited, by that organized society which is called the State." J. E. Holland, Elements of jurisprudence, 1880, p. 62. The word property, derived from Roman law, is either corporeal or incorporeal. From the individual standpoint private property is wealth, but may not be from the standpoint of society. It is a lego-historic, not a necessary economic fact.

(c) Riches is a popular word which, used adjectively, indicates the degree of power one holds in society through possessions.

Roscher, § 7. Riches composed of the sum of wealth and property, which one controls. Desire for riches includes desire for wealth and for property. Use of word wealthy.

§ 19. Exchange, value, money, price, credit. These terms all hold intimate relations to each other.

(a) Exchange consists in the mutual transfer of property.

Exchange is the most patent fact of modern society. Meaning of the word market. Two things are necessary for the establishment of a market: a civilization which recognizes property: a civilization which can understand and practices coöperation of labor. Rogers, p. 10–18. Bagehot (a) p. 41, 42. Roscher, § 95. Jevons (a) p. 84.

(b) Value is that quality of an object which gives it exchange force. Exchangeability denotes the presence of value; the intensity of this power to command other things denotes the degree of value possessed by the thing contemplated.

Mill, B. III., ch. I. Price, ch. II. Garnier, ch. I., § III. Jevons (a) Introduction. Cairnes (b) ch. I. Roscher, § 4. Carey, v. I., ch. VI. McLeod, p. 11.

"The value of a thing is what it can be sold for."—Roman Law.

This is a usable conception; not out of harmony with a philosophical analysis of value.

Value is either an accidental or a contingent quality of things, but a necessary quality of an economic quantity. Analogy with other qualities.

There are three facts concerning value which must be known before its potence in industrial society may be determined, namely: what creates it, what conditions it, and what limits it.

(1) Value finds its source or cause in the two facts of Labor and Law.

Labor. Things desired, but gratuitously supplied, will command nothing in exchange unless limited in supply and appropriated through law. How labor creates value. All labor does not create value, nor is all activity labor.

Law. Right of possession, i.e. property, is necessary to value; no property without law. Value of public bonds. annuities, Irish tenures; effect of New York law for recovery of repudiated state bonds upon the value of bonds. Law not to be considered the result of labor and hence the source of all value found in labor. Irrelevancy of the "Robinson Crusoe" objection to this position; he was no Industrial Society.

(2) For things to possess value or exchange force, they must meet two conditions.

(a) They must be of some use and that use recognized.

(b) They must be limited in supply and a legal right established in them.

(3) Value finds its limit upwards in utility, its limit downwards in the estimated sacrifice required for the production of the thing considered. Mill, B. III, ch. I, § 3.

To suppose value to fluctuate beyond these limits is to suppose exchanges will take place at a conscious loss. This will not occur in business transactions and cannot continuously take place in philanthropic transactions. Labor is no measure of value, for value holds a constant relation to utility, not to labor which has been expended in production.

(c) Money is the medium of exchange and the denominator of value.

(d) Price is the value of one commodity measured in that of another for which it exchanges. Money price is the notation of value in money.

(e) Credit is a promise substituted for money.

These, as instruments in effecting transfers, will receive attention under Exchanges. But as the words must be employed, before a complete consideration of exchanges is possible, it is necessary to understand them, so that their introduction may not complicate the study. The real difference between value and price is seen, when one recognizes that a general rise of price is possible, but that a general rise of value cannot occur.

D.—LEGAL IDEAS CONTAINED IN MODERN INDUSTRIAL SOCIETY.

§ 20. The legal ideas which control action in industrial society find their origin in the political organization of states. In our own country, as well as in most Christian countries, the political organization realizes, with various degrees of completeness, the idea of Constitutionalism.

This restricts the application of economic deductions. National Economy; race economy; cosmopolitan economy. Constitutionalism: What is it? Whence has it sprung? What are its demands? By what peoples are its demands recognized? What criterion of judgment does this relation of the industrial to the political organization furnish? Class growth and Constitutionalism. Interest of the individual and of society. Enlightened self interest and equity. Personal independance, equality before the law, liberty of choice and of action, are the results of the realization of Constitutionalism. These are potent facts in industrial society and are recognized in law as rights granted.

(a) The law grants to each individual, property in himself and hence control over his own actions.

In this, modern Industrial Society differs from the old Saxon; the Feudal; a state of serfdom or slavery. The only exception to this right is found in the exercise of the superior right of the State; e. g., military service. The custom of England and the United States as compared with that of Germany and France. Jury service. Road taxes.

(b) The law recognizes all citizens as equal before it. The same law is for all, from which it follows that every profession or industry is open to each citizen.

No classes based on law. No monopoly based on law, except by, or in interest of, the State. French tobacco monopoly. Post Office. European management of express and railroads.

(c) The law recognizes private property, as well as public property, but demands that ownership be secured through legal processes.

Compare Mill, B. II., ch. I. Private property in land is held subject to the right of eminent domain. Compare Cooley, Principles of Constitutional Law, p. 331. The defense of private property, from the economic standpoint, is its necessity, and in its necessity it finds its limit.

From the foregoing legal rights arise two fundamental postulates of Political Economy: (1) That labor is transferable; (2) that capital is transferable. Compare Bagehot (a) pp. 21 and 41, and Cairnes (b) pp. 61—70.

(d) The right of contract and the necessity of meeting the conditions of a contract are recognized by law.

(e) A curtailment of the right of choosing one's home is recognized as in conflict with the philosophy of personal freedom. From this spring three rights: that of changing one's abode within a country; that of emigration; and that of immigration.

In but few countries are these rights found upon the statute books. In some they are curtailed by Legislative Acts. The Russian Emancipation Act provided against the rise of a wandering class. Tramp Acts of the various States. Influence on Malthusianism on emigration. The presence of wild land in new countries invites immigration.

(f) The law of marriage, as effecting the rate of increase in population, especially in certain classes of population, is one of the most important of the legal conditionings of industrial society, while the question involved in legislation upon this point, is one of the most delicate. Law of marriage, however, is too varied to admit of generalization.

PART III. PRODUCTION.

FACTORS, LAWS, AND METHODS OF PRODUCING WEALTH IN MODERN INDUSTRIAL SOCIETY.

I.—INTRODUCTION.

§ 21. Production consists in the creation of utilities. This is the purpose of the organization of industrial society. The factors of production are land, including all natural agents; labor; and capital, which is always the product of past labor. The law permits property in all these factors; hence society is thrown into a treble classification, according as individuals own and derive a living from the exercise of one or the other of these productive agencies. As it is necessary to have a manager of industries, one who combines and controls the productive factors, clearness of analysis requires that a fourth industrial class be recognized, embracing those who perform this function. To this class is given the name of Undertákers. The industrial classes are, therefore: Landlords, Laborers, Capitalists, and Undertákers; the remuneration arising to each being respectively, Rent, Wages, Interest, and Profit.

The three necessary factors, and in consequence the first three, classes are recognized by all economists. Compare Shadwell, p. 27. Fawcett, B. I., ch. II. Mill, B. I. Roscher, §§ 31, 38, 42. The fourth class is recognized in Germany, (Unternehmer), Roscher, § 195; von Mangoldt, § 33; in France, (Entrepreneur,) Garnier, p. 37. It is beginning to have recognition in this country, Walker (a) ch. XIV. Without this conception it is impossible to understand many things observed in industrial society, which depend upon the fact that, while the ultimate object of production is consumption, the immediate purpose of the organization of industries is profit.

§ 22. The first question of importance which arises has reference to the extent of production which is desirable. Is over-production possible? There are three answers which may be given to this question.

First, Over-production of wealth is impossible, because wealth is that through which human desires are satisfied. To permit, then, the possibility of over production, is to admit that human desires may be satisfied in too high a degree.

Compare Price (a) p. 122. This statement is useless as an answer to the practical question of crises or gluts in the market.

Second, That which is called over-production is only disproportionate production. Disproportionate production may be of two kinds: (1) When the amount of any commodity produced be compared with quantity of commodities for which it must be exchanged; (2) When the commodity produced be compared with the extent of human wants which it is intended to satisfy.

For the first compare J. B. Say, ch. XV. Perry, p. 126. Mill, B. III., ch. XIV., § 2. As upholding an entirely different view, compare Chalmers, ch. V. Compare also Shadwell, p. 25.

Third, The supply of a commodity may fall far short of the wants it is intended to satisfy, and yet be too great for the highest possible profit to those engaged in its production.

II.—THE FACTORS OF PRODUCTION.

A.—NATURE.

§ 23. The Physiographic Features of a country determine, in great measure, the industries it may undertake. Those features here considered are such as are permanent, or with difficulty affected through human agencies, and such as are common to all the inhabitants. With reference solely to the economics of production, they may be submitted in the following classification:—

(a) Climate.

(1) Man's necessities are thereby determined.
(2) Climate effects both the inclination to labor and the capacity for labor.
(3) It determines the kind of industries which may be carried on successfully, and, in part, the amount of capital which may profitably be applied to land.

(b) The configuration of the land with respect to water and mountains.

The seacoast, which a country presents, determines, to a great extent, the possibility of its success as a commercial nation. Compare Europe and Africa. The situation of a country with regard to trade winds and sea currents is of less importance now than when modern commerce arose. The mountains of a country determine its flow of water and amount of rain.

(c) Character of the soil.

Very many industrial conditions are determined by the character of the soil, besides those directly connected with agriculture, as, population, tendency to crowd the cities, forms of manufacture, extent of division of labor, and others. Compare Roscher, §§ 31–38.

§ 24. *Land holds four relations to Industrial Society.

(a) It may be considered as providing roads and highways for travel and transportation. As such, when public property, it properly forms a subject in the Science of Finance.

(b) It may be considered as furnishing standing place for buildings.

(c) It may be considered as a fund from which material is supplied, for which the labor of appropriation alone is required. This material is either such as nature from past ages has stored up, as metal, coal, &c.; or such as nature, unaided by labor provides in season, as wild berries, game, fish, forests, and the like.

In the first stage of civilization, the hunting state, the gratuitous gift of nature was all that the land afforded, and in this population found then its limit.

(d) Land is considered the source from which material is derived through labor. In this sense its true functions is that of a machine.

This is the most important relation which land holds to industrial society. A people recognizing this relation is no longer in a state of savagery, but exists in the pastoral, the agricultural, or the manufacturing and commercial state.

There is a question arising with respect to land employed in agriculture, a consideration of which leads to the most important, indeed the fundamental law of Political Economy. It is seen that Nature places a limit to population. Labor, applied to land, extends that limit. Can labor extend it indefinitely and hence is there no limit to population? The answer to this question rests upon a fact respecting the application of capital and labor to land. This fact, stated, is called the Law of Diminishing Returns, and is as follows: Every increase of production from land is obtained by more than a proportional increase in the application of labor and capital to land.

Compare Walker (a) ch. V. Mill, B. I., ch., XII. George, p. 126 and following. Rickards, p. 135 and following. These last two deny the law. Mr. Rickards' position stated and refuted by Cairnes, (a) Lecture VIII., § 5.

§ 25. The natural agents, which by being subjected to the guidance of mind increase the effectiveness of labor, are also to be included under the natural factors of production.

Compare Chapin-Wayland, ch. V. E. P. Smith, p. 74. Natural agents of this class are such as either create momentum or present means for directing and applying it. The former are either animate, as domestic animals, or inanimate, as wind, water, the explosive and expansive gases. The latter include mechanical principles, being the basis of all tools and machinery.

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* This classification is adapted from lectures delivered by Prof. Dr. Adolph Wagner, of Berlin University.

B.—LABOR.

§ 26. Labor is human activity put forth for the purpose of securing the means to satisfy economic desires, viz.: for the creation of utilities. Productive labor is that which succeeds in its purpose.

Fawcett (a) B. I., ch. III. Roscher, §§ 38–42. Garnier, ch. III. Mill, B. I., ch. II. Shadwell, B. I. ch. II. Chapin-Wayland, ch. IV. Upon the question of productive and unproductive labor, the English and German Economists differ. Each is in harmony with the definition of wealth it accepts.

Labor is either mental or physical; the tendency being, as methods of production become more perfect, for the former to predominate over the latter. "Labor, in the physical world, is always and solely employed in putting objects in motion."—*Mill.*

The inducements to labor, where labor is free depend upon the extent to which and the safety with which one may hope to enjoy the fruit of his labor; while the effectiveness of these inducements depends upon race, habit, and climate.

Where fear is the inducement to exertion on the part of laborers, no marked economic progress may be expected. Compare Mill, B. II., ch. V. Slavery is only justifiable where law cannot protect labor. Illustrated from laws of Moses; from old Irish laws. Industrial society, based upon wages, presents a higher stage of development than slavery, but a condition of society in which strikes occur, is condemned by Economy for the same reason that it condemns slavery. Payment by the piece was intended to present greater inducement to industry than payment by wages, but, where practiced, it has effected little. The society in which all producers share in profit, is that in which incentive to labor may exert its maximum strength. For the application of this principle in the case of peasant proprietors, compare Mill, B. II., ch.'s VI., VII. For the same under Coöperative industries, Fawcett, (a) B. II., ch. X. Cairnes (b) p. 289. It is the form of society to which the wages system must give way.

Other things being equal, that country which has the best government presents the highest inducements to economic activity. The influence of race, habit, and climate, are capable of familiar illustration. Compare McCulloch, Part II., Sec. II. Roscher, § 39.

§ 27. The effectiveness of labor depends upon nationality, sex, birth and death rate, and education.

Compare Walker, (a) ch. III.; also, Brassey, "Work and Wages."

(a) Nationality determines to a great degree the strength and power of endurance of laborers; their adaptiveness to certain lines of industry; national habits have an influence upon a country's economic condition, as, religious habits, determining days of rest and holidays, habits of temperance or intemperance.—Roscher, § 40.

(b) A country always loses in industrial power, whose women undergo difficult physical exertion. Example of South German peasants. That country may be the strongest industrially, which includes the greatest number of men. Birth rate of sexes in various countries. A country gains by passing the light employments to women, leaving the more difficult, either mental or physical, for men.

(c) The birth and death rate determines the proportion of population of the productive age.

(d) Education, general as well as technical, increases a country's productive power. Compare Fawcett, p. 49. Skill the most important fact in determining productiveness of labor.

§ 28. Labor is rendered more effective through systemization of its operations. "The principle is that different kinds of labor be distributed to different classes and individuals, so each shall do that for which he is best fitted." The assignment to classes of the various operations, which preparation for consumption requires, is termed combination of labor; while the assignment of various parts of the same operation to individuals of each class, is termed division of labor. This principle was first insisted upon by Adam Smith, B. I., ch. I, II. The effect, as regards production, is the same as that which follows the application of better machinery.

For study compare Chapin-Wayland, ch. VI. Mill, B. I., ch. VIII. Shadwell, p. 39. Rogers, p. 11. Fawcett, (a) p. 52. These references will show the cause of division of labor and the special advantages which it procures to industrial society.

The limit to which the principle of the division of labor may be carried is of utmost importance. It is dependent:—

(a) Upon the nature of the industry undertaken.

(b) Upon the amount of capital applied or the size of the industry considered.

(c) Upon the extent of the market; which, in its turn, is determined by density of population, means of transportation, and wealth of the purchasing classes.

Compare Chapin-Wayland, ch. VII. Mill, B. I., ch. VIII., § 6.

There are evils as well as benefits attendant upon the application of this principle of the division of labor. The danger through too minute a division of labor is:—

(a) To impair the health and vigor of the workmen.

(b) To contract and enfeeble their intellects.

(c) To render them entirely dependent upon the employer.

That society, also, which is most highly developed in this direction is in danger of including too large a class of intermediaries, or middlemen, as well as too many superintendents of labor.

§ 29. Production of labor, or Malthusianism, from the standpoint of production.

Natural resources are limited, but increased labor will always add something to the product. Is labor then limited? The answer to this question is found in the law of population, which formulates what is true in the Malthusian doctrine.

Compare Malthus, Principles of population. Cairnes (a) Lecture VII. Walker, (a) ch. VI. Rogers, ch. VIII. Shadwell, B. I., ch. IV. Mill, B. I., ch. X. George. B. II. E. P. Smith, ch. I. Carey, v. I., ch. III. Spencer, Principles of Biology, v. II., Part VI.

The doctrine of population rests upon two propositions:—

(a) In man lies the power to increase population more rapidly than subsistence.

Compare Cairnes, p. 159. Malthus, v. I., p. 10. Malthus' statistical statement was unfortunate, but the principle underlying it is correct. This proposition is but a statement of fact respecting the fecundity of the human species, united with a statement of the law of diminishing returns. Error of Mr. George, pp. 116, 117, 134. Error of Mr. Carey, compare E. P. Smith, p. 35.

(b) There is a natural tendency in population to increase faster than the means of subsistence.

The meaning of this is, that the fact of passing into a state, with regard to land, in which more expensive methods of producing food are required, has, in itself, no tendency to decrease the birth rate.

Compare Walker (a) p. 106. The "constant effort" of population to increase, is not a necessary part of Malthusianism.

It is of course impossible for population to increase faster than means for sustaining life. There must, therefore, be certain checks to the growth of population: these are either positive-physical checks, or negative-moral checks.

(a) The positive check works in three ways, (1) by causing the death rate to increase, especially among children; (2) by causing the birth rate to diminish, through diminishing the vitality of the women; (3) by weakening the desire for marriage, on account of scarcity of food. This check works upon man as an animal.

(b) The moral check, peculiar to man, opposes the creation of those conditions in which the positive check becomes potent. It prevents early and prolific marriages.

LAW OF POPULATION.

The limit of population is nothing definite; the rate of increase depends upon the rate at which subsistence increases, and upon the strength of the motives which oppose early and prolific marriages.

C.—CAPITAL.

§ 30. Capital is that part of wealth applied to the production of new wealth; or, that part of the product of labor applied to future production.

Roscher, § 42. Shadwell, B. I., ch. III. Mill, B. I., ch. V., VI. Chapin-Wayland, ch. VIII. George, B. I., ch. II. Price (a) ch. IV. The various conceptions of capital are seen from these references, but in these lectures neither land nor labor is to be included under this head.

Capital considered as regard its forms may be classified under four heads:—

(a) Raw material, viz.: things produced requiring the expenditure of additional labor upon them before prepared for use.

(b) Helps to labor, viz.: things produced which add to the efficiency of labor.

(c) Means of subsistence, viz.: food produced which gives strength to labor.

It is an error to say that the food of the wage receiving class is alone capital. Compare Mill, B. I., ch. IV., § 2.

(d) Wealth in process of exchange, or stock kept for sale at a profit to the salesman.

Compare Roscher, § 42. Chapin-Wayland, pp. 76-79. It is necessary to keep in mind the difference between personal and national capital, so as to determine from the context, in loose discussion, which is intended.

Capital may be further analyzed, when considered with regard to its use.

(a) Capital is either fixed or circulating: circulating capital being that, the entire value of which reappears in the product after a single process; while fixed capital is all applied capital, not circulating.

Raw material and food come under the first head; machines and domestic animals under the second. Time of continuance is the real point of difference. Mill, B. I., ch. VI. Roscher, § 44. Fawcett (a) p. 41.

(b) Circulating capital is capable of further analysis: it belongs either to the fund of employed or free capital.

Employed capital is that permanently given over to some productive purpose, while the fund of free capital is made up of such wealth as is devoted, by him who has property in it, to productive purposes, but not yet to any particular industry. It is wealth seeking investment.

(c) Free capital is further divided into that which is totally free and potentially free. The former, made up from profit in past processes of industry, is that which has never yet been applied, and may go to swell either the country's capital fund, in some of the various forms, or the country's luxury fund, in which case it loses its capitalistic character. The capital potentially free is such as has been applied to industrial purposes, but does not pay the average profit. Its owner, will, therefore, reinvest it as soon as that may done without too great loss. The diagram on the following page will more clearly show this analysis.

- Wealth, product of industry.
  - Capital fund.
    - Classified as regards Form.
      - (*a*) Raw material upon which labor is expended.
      - (*b*) Helps to labor.
      - (*c*) Means of subsistence.
      - (*d*) Products in process of exchange.
    - Classified as regards Use..
      - (*a*) Circulating capital.
        - Free Fund.
          - Entirely free.
          - Employed at losing rates.
        - Employed fund.
          - Raw material fund.
          - Subsistence fund.
          - Stock fund.
      - (*b*) Fixed capital.
        - Machines.
        - Houses.
        - Permanent improvements.
        - Money and Banking Institutions considered as national capital.
  - Fund consumed as luxuries or comforts, and so disappearing finally.

Capital thus appears to be a necessary factor of production. To destroy it would be to destroy industrial society. But capital and capitalists are as distinct as land and landlords. The person in both cases may be considered as the agent of society, given full property in the thing, because it is believed that thereby the highest interest of society is subserved. The point of importance is, that while capital is an economic fact, the capitalist, as an individual, is a legal fact, hence the question of doing away with the capitalist class, is simply a question of the legal organization of industries. He who would defend private property gains nothing by denying what is true in the position of his opponent. Compare Rau-Wagner, vol. I.

§ 31. Propositions respecting capital.

(a) The industries of a country are, at any time, limited by the amount of capital which the country holds. This is a different proposition from that which says "capital limits industry."

Compare Mill, B. I., ch. V., § 1. Opposed to this view compare George p. 72. Criticism upon the position of Mr. George.

It does not follow that industries always reach the limit which capital sets. The capitalist, having property in and control over capital, may determine otherwise. It is the hope of profit which at any time determines the extent and intensity of industries.

Compare Mill, B. I., ch. V., § 2.

An important corollary follows from this first proposition. The creation of a new industry in a country is not necessarily advantageous. It may have the effect only of transferring capital from one industry to another.

Example of beet sugar in Germany; of the supplanting of the shipping interest by the manufacturing interest in this country, between 1808 and 1816.

(b) Capital is the result of saving. By saving is not meant hoarding, but the production of more than is consumed.

Compare, Price (a) p. 109. Roscher § 45. Mill B. I., ch. V., § 4. Chapin-Wayland, p. 74. It is an error, however, to suppose that capital always represents a personal sacrifice on the part of him who has property in it. Theory of Marx respecting capital building. The truth seems to be that there are two steps in capital building, the first is bound up with personal sacrifice, conscious abstinence; the second entails no inconvenience upon him who determines that capital shall be accumulated.

(c) All capital must be consumed. It is "kept in existence from age to age not by preservation, but by perpetual reproduction."—*Mill.*

Mill, B. I., ch. V., §§ 5, 6, 7. If this proposition be true, it is an error to class as capital such things as strength, skill, intelligence, land, bonds, and mortgages.

(d) Industrial society is more sensitive to a disturbance in circulating than fixed capital.

§ 32. Law of the increase of capital.

There are two factors which, at any time, determine the rapidity of capital building, namely: the size of the fund from which saving may be made, and the inducements to save which are offered to him who has property in this fund.

The fund considered is the surplus produce of labor, hence the greater the net produce of a country the greater may be the capital built from it. How much of this fund will be converted into capital depends upon the practicability of increasing investments, and upon the inclination to do so, which they feel who have property in the free fund.

Saving is practicable when the rate of profit is high, and security of enjoyment in that produced is ensured.

Mill, B. I., ch. XI. In dull times the rate of profit being low, no strong inducement is offered to save, hence much is consumed in luxuries. Condition of the United States after the Revolutionary war. The amount of luxuries consumed is no criterion of the standing of a country.

The inclination to save depends upon character; upon the healthfulness of the country; upon the nature of the business, whether one may hope for long life in it or not; and upon the condition of the law as providing security.

It is possible, then, to state a law for the increase of capital, no more definitely than the following: There is no determinable limit, but the growth of capital depends upon the relative strength of motives for and against saving, which are presented to those who have property in the free fund.

III.—ORGANIZATION OF INDUSTRIES.

§ 33. Only the most primitive processes of production can be carried on without definite organization of the producing factors. In the development of industrial society, it is possible to recognize three sharply defined states, according as land, labor, or capital has played the most prominent part in the process of production.

In that state, when peoples lived by hunting, fishing, or herding, Nature was recognized as the bounteous source of all things. When, on account of the increase of population, it became necessary for men to attach themselves to the soil, labor came to the foreground. Capital, in its turn, is recognized as the most important of the three factors in all manufacturing or commercial civilizations. This is the stage of development at which the Western world has now arrived. Land and labor are not less important than formerly, but the effectiveness of capital is proportionately greater. Industries are, in consequence, more complicated, the various parts of society more dependent upon each other, hence the question of Organization of Industries addresses itself strongly to the attention of the student of society.

It will be possible to grasp the tendencies of modern industries much more completely, if they be subjected to a comparison with the industrial organization of previous times. From this comparison one may learn that the law of property and form of undertáking were different for each stage of development.

(a) Private property in land is at present the general fact. In the hunting and pastoral states, there was no continued property in land; it held the third relation to industrial society. [§ 24, (c).] In the second stage of development, land was either common property of the tribe or held by political tenure.

For illustration consider the Indian tribes; early Biblical history; organization upon communal tenure, as among the early German tribes or the Russian serfs.

(b) Private property in labor is at present recognized by Constitutional peoples; or, as it it is usually stated, labor is free. With regard to primitive peoples, there is no general rule concerning slavery, but it may be said that industries were not organized upon that basis. Slavery was more or less a matter of choice with the slaves, and was freely accepted, either as a means of securing personal protection or of acquiring political rights. As society further developed, and systematic labor became more necessary, forced slavery became more frequent, until there was scarcely a society in which it did not exist. That this system has been abandoned, it is not altogether due to a clearer perception of moral obligation, but partly, at least, to the fact that increase of capital and the employment of more complicated machinery rendered skilled labor necessary.

Egypt may be considered as the most highly developed nation of which we have record, whose industrial system was based upon slavery.

(c) The undertáker has ceased to be, necessarily, a State servant. Industries have been separated, in a great degree, from State functions.

Forms of undertáking in the various states of society: The Family state; the Tribal state; the Feudal State; during the 16th, 17th, and 18th centuries; emancipation of industries at the close of the last century.

This comparison is important as showing two facts, (1) That the condition of affairs in which we find ourselves, is the outgrowth of a long line of historic development, and itself, like its predecessors, may be transitory. (2) That a return to State control over industries, should it be deemed necessay, would now produce very different results from those produced when it previously existed, because the political idea has radically changed.

In monarchies the King is the Law.
Among constitutional peoples Law is King.

§ 34. The foregoing analysis has shown that modern industrial society is built upon four legal facts: private property in land, in labor, in capital, and equal right of contract for all persons alike. Its characteristic feature is private undertáking. The undertáker, defined according to the rôle which he at present plays, is the responsible individual in the organization of industries upon contract.

(a) Under this system the highest inducement possible is offered to the undertáker for continuous and intense industry.

(b) There is no limit placed by law to the extension of those industries which are open to private enterprise.

Government may create a monopoly in certain lines of business, as in the transmission of letters, but no limit has yet been set to accumulation.

(c) This system presents the legal possibility for a rise from the lower to the higher classes, and there is constant effort to effect this transition.

§ 35. Industries in modern society are organized either upon the private basis, or upon the basis of Industrial Associations.

(a) The interesting economic facts respecting a private business are the following:—

(1) In law a private concern stands forth in the person of the undertáker; his obligations are binding to the full extent of property, irrespective of the purpose for which they were incurred.

(2) The principle of self-interest is at its maximum, since the entire profit accrues to the manager.

(3) Responsibility is undivided.

(4) The limit to the extension of business in such a form of undertáking is found in the capacity of the undertáker; in the risk which an individual cares to run; and in the capital which an individual may command.

(b) Industrial Associations are unions of persons and capital in the form of Partnerships or Corporations.

(1) Full Partnerships stand in the same relation to law as a private person, except that obligations, to be binding upon the firm, must be incurred in the legitimate business of the firm, otherwise the person who creates the obligation is alone responsible. Self interest

is just as strong, but responsibility is divided. Credit is stronger than in the case of individuals, and, in consequence, command over capital is greater. Risk also is more easily borne.

Limited partnerships are those where certain of the partners are responsible for obligations incurred, only to the extent of their investments, although returns come to them in the form of profit rather than interest upon money loaned. Economically there is little difference from that form of organization already considered.

(2) Corporations are bodies created by law, recognized as legal personages independently of the individuals incorporated. The chief advantages of this form of organization are three:—

First, Individual responsibility is limited to the amount of investment.

This is the general rule of corporations, but is contravened by some special laws. Case of English banks. In this country the rule is quite universal. Law of National Banks.

Second, The control of a corporation over capital is practically unlimited.

Capital is collected by sale of stock, and stock is transferable. Business men frequently buy stock while waiting for permanent investments. Use of bank deposits.

Third, Monopoly prices may frequently be demanded for commodities produced or for services rendered, and, in consequence, abnormal profits sustained.

Corporations have the disadvantage, however, of divided responsibility: of incomplete control, which usually comes through a superintendent from a board of directors.

The result of the foregoing analysis may be more graphically stated as follows:—

Facts Concerning Organization of Business.

PRIVATE BASIS.	CORPORATE BASIS.
1. Entire profit is the property of the Undertaker.	1. Superintendent is at a salary, and interested in profit only as he is a stockholder.
2. Individual control is complete.	2. Control is divided.
3. Responsibility is personal.	3. Responsibility is divided.
4. Self-interest is at its Maximum.	4. Self-interest is divided.
5. Legal responsibility is unlimited.	5. Legal responsibility is limited.
6. Control over capital is limited.	6. Control over capital is unlimited.
7. Competition active, monopoly prices impossible.	7. Competition passive, monopoly prices possible.
8. Moral element at its maximum.	8. Moral element at its minimum.

From this it appears that the first five points are advantageous to small concerns, the last four to corporations. The most important point is control over capital, and the decision as to whether a given business will be undertaken upon the private or corporate basis, depends upon the amount of capital which may be successfully employed in it.

The transport industries and many manufacturing undertákings are organized as corporations. Capital is becoming centralized to an unprecedented degree. The complete explanation of this phenomenon may be found in the law of capital:—

Cost of production decreases with every additional application of capital in the form of machinery, and with every extension of the principle of division of labor.

§ 36. There is still another form of Industrial Association, which, though not at present generally realized, is thought by many to be the form of society toward which industries are tending. It is Coöperation, by which is meant a union of capital and labor.

Fawcett (a) ch. X. Cairnes (b) pp. 287—294. Holyoake, "History of Co-operation" 2 vols.

Co-operative industries may be established either as partnerships or corporations.

The purpose of coöperation is to do away with the personal undertáker, [Walker (a) ch. XV.] and to give the laborers an interest in profits. Considered solely from the standpoint of production, coöperation may with difficulty be defended; only when the question of distribution is recognized as of importance, are arguments for its support forthcoming. Its study, therefore, is postponed.

With regard to organization, however, it must be added that coöperation is of two kinds:—

(a) Private or contract coöperation.

(b) Public or coercive coöperation.

If this form of industry is to play any prominent part in the society of the future, it appears appropriate that private coöperation should embrace all those classes of business in which personal oversight outweighs capital; while public coöperation undertakes those industries in which there is an observed tendency to an undue centralization of money power.

PART IV. EXCHANGE.

LAWS WHICH GOVERN THE CIRCULATION OF COMMODITIES.

§ 36. It is the ultimate destiny of all things which are produced to be consumed, and under circulation of commodities, one studies the transfer of goods from the hands of the producer to the consumer. This is as important a step in the satisfaction of desires as the production of wealth, and if this circulation should be stopped for a single week, society would be thereby greatly inconvenienced. There are two separate problems embraced in this part of Political Economy: the one having reference to transfer of property in goods, or Exchange, the other to the transfer of the goods themselves, or Transportation. The former has received attention from all economists, hence special bibliography for the general subject is not necessary; the latter, much to the detriment of the study, has been passed over on account of its technical character. It will find treatment in this course of lectures in Part Sixth, considered as one of the practical problems of the present day. Under Exchanges, as usually treated, is found a study of the Theory of Exchange, and of the laws of Price; also a consideration of the instruments of Exchange: Money and Banking. There is no adequate reason for adopting any new order of discussion.

Exchange may be effected by three possible methods: (1) By Barter, when full surrender of a commodity is given in return for a commodity desirable in itself, the exchange being completed in the single process. (2) By Money exchange, where full surrender of a commodity is given for another desirable only on account of the fact, that he who holds it possesses the power to command whatever he desires. The exchange, here, is only completed by a double process. (3) By Credit exchange, when full surrender of a commodity is given in return for a promise. The complete exchange, here, is postponed.

I.—Theory of Exchange.

Under theory of Exchange, there are two questions which claim attention. The first calls for an explanation of the fact that the process of exchange, though appropriating no material nor shaping that appropriated, is a productive process; under the second, one endeavors to discover the point at which exchanges cease to be productive.

§ 37. To answer the first question, and to explain why the process of exchange is productive, it will be necessary to search for those facts respecting commodities, which determine the intensity of the desire for their possession on the part of those considering them. These facts appear to be the most satisfactorily stated by Prof. Jevons, in his Theory of Political Economy, ch. III., which treats of Utility. There is nothing in this "Theory of Utility" which may not be easily understood, if one only grasp the somewhat technical meaning attached to the word. Utility is conceived to be no intrinsic quality of things, but an attendant quality, which gives to commodities, at any time considered, the power to ward off pain or add to pleasure.

Cairnes objects to this use of the word, compare (b) p. 18, but in so doing employs as synonomous the two words, usefulness and utility. By making each carry a separate conception, the vocabulary of economics is rendered more definite. Bentham defines utility as "that property of an object whereby it tends to produce benefit, advantage, pleasure, good, or happiness, (all this in the present case comes to the same thing) or (what again comes to the same thing) to prevent the happening of mischief, pain, evil, or unhappiness to the party whose interest is concerned.

The economy which accepts this conception of utility, must adopt human wants as its starting point, and recognize *The Law of Variety* as determining the order in which these wants will be satisfied.

It lies further in this theory, as an essential part of it, to discriminate between the total utility of a commodity considered as a whole, and the utility of any part of it. This distinction leads to the law of varying utility, which is: That, as the quantity of any commodity decreases, the intensity of the utility of any part of that which remains increases, until at last the commodity becomes indispensable, that is, the utility becomes infinite.

The quantity here referred to may be that in the possession of any individual considered by himself, or, as is the case in modern society, the quantity held by society, of which it is possible for any one, through purchase, to avail himself.

This is the best illustrated by the diagram employed by Prof. Jevons, (a) p. 55.

The law here considered recognizes that man is a rational animal capable of calculating for the future.

It is now possible to understand how that exchanges may be mutually beneficial to both parties to the exchange, and hence constitute a productive process. Each gives that of which he has more, as compared with his wants, for that of which he has less. Each parts with a commodity the utility of which is to him less intense, for one of greater intensity. Exchanges constitute a productive process in this, that, by means of them, superfluities are transformed into necessities, and thereby utility is created.

§ 38. The question respecting the point at which exchanges cease to be productive, embraces, in reality, two separate questions; the first having reference to the exchange of commodities already produced and appropriated, the second taking into consideration the effect which the prospect of gain through exchange will have upon production.

(a) For those things already produced, exchange for any individual ceases to be productive, when the degree of utility for a given unit of one commodity is the same as the degree of utility for the corresponding unit of the other. Exchange beyond this point would entail loss.

This may also be illustrated by the figure employed by Prof. Jevons, (a) p. 97. The question of original cost in labor has no influence here. Labor once expended has no further influence upon the value of the commodities which it produced. To include labor as an element in determining market value, is an error.

(b) The first exchange for all things, or the original cost of all things, is the labor which was required to appropriate or produce them. The excess of satisfaction procured over the sacrifice endured, is that at which any ultimate analysis of remuneration to labor, must arrive.

Through division of labor, the development of which is permitted by the establishment of a market, the efficiency of labor is increased, and this results in the increase of the amount produced; but, according to the law already cited, the utility of any portion of that produced is thereby diminished. Industry in any given line will, therefore, continue until the product fails, by exchange, to secure an adequate satisfaction to offset the labor. It thus appears that this question of the extent to which exchange will be carried, resolves itself into a problem of production, for, though it is possible that they take place beyond the point indicated in single cases, exchanges of that nature cannot continue, since production, which is a necessary antecedent to exchange, will cease.

Goods are always produced to sell, not to use; the wealth gained by exchange is that which determines whether or not production shall continue. Thus, while labor is no measure of value for the exchange of goods once thrown upon the market, the value of that procured by exchange, expressed in labor expended to secure the power of purchase, is that which determines the limit of production for exchange, of any commodity This is something of a guarantee that goods will exchange in proportion to labor expended in production.

Compare Cairnes (b) ch. III., § 2. Criticism upon Shadwell B. II., ch. II.

II.—COMPARATIVE VALUE AND PRICE.

§ 39. The great difficulty in this question of exchanges is, to understand why commodities exchange for each other in given ratios. The doctrine of value, so far as the conditions of its existence are concerned, has been already treated, (§ 19) but variation of value upon the market, comparative value, still claims attention. The conditions necessary for value are, that property in the goods shall have been created, that they shall be capable of satisfying some want, and that their supply shall be limited. The first condition may be considered as constant, the second as constant, subject only to the law of variety in human wants, while the third is subject to continual fluctuation. It seems natural, therefore, to look for the cause of the variation of value in the variation of quantity. This, however, is in harmony with the law of utility already discovered. The only difference between a study of utility and of value is, that, in the former case, a single commodity alone is considered, compared with the wants it may satisfy, while, in the latter case, (value being thinkable only in connection with exchange), it is the comparative quantity of the two commodities, referred to wants, which must be considered. The law of comparative value therefore, which may serve as the general basis of price, is: Comparative value depends upon comparative amount.

This embraces all that is true in the law of supply and demand, without necessitating the acceptance of that which is false in that law, respecting price. Compare Mill, B. III., ch. II.

§ 40. There is no universal law of price, applicable to all commodities. The logic of price, however, as applied to the great mass of commodities, is simple. Price is the expression of the value of one commodity in the amount of some other commodity, that is, it may be termed the language of value. If then value depends upon the comparative amount of the thing measured and the measuring thing, price, which is the denominator of comparative values, must be the resultant of those factors which determine quantity.

All economists since Adam Smith have recognized quantity as one of the elements determining price, this being expressed in the language of the law of supply and demand. The development of this law is instructive. The law as stated by Adam Smith is: "The market price of every particular commodity is regulated by the proportion between the quantity which is actually brought to market, and the demand of those who are willing to pay the natural price of the commodity, or the whole value of the rent, labor and profit, which must be paid in order to bring it thither. Such people may be called effectual demanders, and their demand the effectual demand." B. I., ch. VII. This statement, which shows a clear analysis of the process of production for profit by exchange, presents two truths: (1) That Demand must be considered the causal factor in all industries. (2) That for Demand to effect anything, it must be expressed by him who has property in purchasing power.

Mr. Mill objected to this statement of the law, because it supposes a proportion existing between a human desire and a quantity of goods. He interpreted demand, therefore, to mean quantity demanded, and claimed that the price of goods must at any time be such, that the quantity supplied and quantity demanded would be just equal. As an explanation of price, this law is unscientific, because an assumed price is already a factor in demand as well as in supply. Cases which are typical also, may be cited where the law, as stated, is not true. Compare Thornton, On Labor, pp. 56–65. This law then, which claims to be general, appears to be true only when conditionally stated.

Prof. Cairnes further criticises the general law as usually stated. "Demand and Supply," he claims, "considered as general facts, are not independent phenomena, but essentially the same phenomena regarded from different points of view; consequently general Demand cannot increase or diminish except in constant relation with General Supply." With respect to particular commodities, Demand and Supply may increase or diminish, in respect to each other, but they obey this law: Supply always tends to adapt itself to Demand. See Cairnes (b) p. 42. Compare also, Shadwell, p. 124, Fawcett, (a) B. III., ch. II., Price, (a) p. 85 and following, Roscher, § § 102—107, Thornton, B. II., ch I.

§ 41. A further study of the phenomena of exchanges, in the light of what has been said, shows that the price of commodities, the production of which is unlimited by any external fact, and with regard to which the principle of free competition is unchecked in its working, is determined in a different way from the price of those things whose production is limited. (a) With respect to the former class of commodities, the following tendencial law may be given: The quantity of each class of goods produced will be such that, in the exchange, equal labor and sacrifice is represented by each commodity of the exchange. The price will be the cost of production and presentation. Variation from this point entails loss to one of the parties to the exchange, which will result in a less intense production on his part. The quantity then is decreased, and the value of any unit of that which is produced increased.

On the other hand, variation from this point gives to the other party to the exchange excessive profit, which will induce more intense production. This will occasion an increase in the quantity of goods produced, and the value of any unit of that which is produced is thereby decreased. The normal price of goods, therefore, and the price which will result where the conditions for the unrestricted working of free competition exist, is the cost of their production.

For Mill's analysis of cost of production, see B. III., ch.'s III. and IV. Prof. Cairnes' analysis differs somewhat from this. See (b) ch. III. Agricultural products and manufactured products are both alike subject to this law, though the application of it may effect a gradually rising price in the one case, and a gradually falling price in the other. Compare Fawcett, (a) B. III., ch.'s III. and IV.

The perfect working of the principle of free competition demands the fulfillment of three conditions.

(a) Perfect transferability of capital.

(b) Perfect transferability of labor.

(c) Absence of monopoly with respect to industries.

The difficulties which oppose the easy transfer of labor and capital from one industry to another, have already been considered.

§ 20. Monopolies in modern industries are of three kinds:—

(1) Natural monopolies, where the production of goods is either impossible, or only possible at excessive cost, except by those who have property in the limited producing agent.

(2) .Capital monopolies, where, through priority of establishment and amount of capital required for the plant, the establishment of competing enterprises is precluded, although excessive profit is promised.

Railroad corporations are a familiar illustration of this form of monopoly. There is no guarantee whatever that cost plus average profit upon capital invested, will be the price charged for service rendered.

(3) Legal monopolies, where law has prohibited competition.

This monopoly may be either in favor of the state, as the post-office, or in favor of an individual, as in the case of patents.

(b) The price of goods, the production of which is under either a legal, capital, or natural monopoly, will be such as to ensure the greatest net profit at any time on capital invested. A high rate of profit, by curtailing sales, will cut off the highest net profit possible; a low rate of profit, while increasing the amount of gross proceeds, decreases the net profit. The purpose is to secure the largest demand possible at the highest price possible, since in that manner is the greatest net profit secured, and upon that basis will the price be determined.

Case of goods produced under patent. Price is usually very high and gradually lowered to create new demand. The practical conclusion from these facts is, that it is the part of wisdom to bring about, so far as possible, those conditions in which free competition may work, since that is the only guarantee which modern industrial society presents, that market and normal price will coincide; if that be impossible, strong reasons are presented for advocating that some legal control be thrown about the presentation on the market, of monopoly-produced goods and services.

(c) As for the price at which things actually limited in supply will sell, (with the exception of land, the price of which is always the capitalsized value of the rent which it pays), I do not know that the usefulness of Political Economy depends upon its ability to answer such a question. Caprice, which is reducible to no law, has much to do in determining price. Competition among buyers will effect something, also competition in the mind of a single buyer, between the various methods by which he may satisfy his desires through the expenditure of the purchasing power of which he is in possession.

Consider the case submitted by Shadwell, p. 132, and the various cases submitted by Thornton.

III. MONEY.

Good books for the study of Money are:—

WALKER, Money.
JEVONS, Money and the Mechanism of Exchange.
PRICE, Currency and Banking.
McADAM, Alphabet in Finance.
KNIES, Das Geld.
CHEVALIER, La Monnaine.

§ 42. Money is the instrument by which exchanges are effected; it is the most apparent thing in industrial society. To understand money perfectly its functions must be studied. These are three:—

(a) Money serves as a medium of exchange. This is its primitive and essential function.

This is best understood by considering a state of barter, and the inconveniences attendant upon exchanges. Compare Jevons, (b) ch.'s I, II, and III. McAdam, ch. I. Price, (b) p. 144. Considered in this way money is purely a machine.

(b) Money serves also as a Denominator of Value, that is, it is that to which all things are referred for the expression of their value.

(c) Money serves as a standard of Deferred Payments.

The statement of these two functions (b and c) are taken from Prof. Walker. (b) ch. I. He, too, gives adequate reasons why the "Store of Value" function should not be accepted. Compare (b) p. 14. It is not necessary that all these functions should be performed by the same commodity, and the history of money shows that this has not been the case.

Another essential idea which money at the present day must incorporate is, that its delivery constitutes a complete legal discharge from indebtedness. It is a source of great error not to recognize the legal character of money.

Compare Mc Adam ch. V. Walker (b) pp. 405—409.

§ 42 Money has played an important rôle in the development of industrial society. It is the first great labor saving machine which was ever invented. To understand its position in this development, is to gain additional light respecting its nature.

(a) The discovery of money, and a general acquaintance with its use, was necessary, before the idea of production for traffic, as distinct from production for consumption, could have been developed.

Under barter, production was accidental, not systematic, and limited to immediate wants. Under the money system of Exchange, production extends beyond personal wants with regard to the thing produced.

(b) The discovery of money was necessary before accumulation of capital could be carried to any beneficial extent.

Under barter system, there was no motive presented for accumulation of capital. The capital building, also, would have been very difficult without money as a means for effecting it.

(c) Minute calculations, which would be impossible without money, are essential to a highly organized industrial society.

The possibility of calculations gives confidence in the undertaking of great enterprises, and reduces the element of insurance.

One must not, however, consider that money has any creative power in itself, for money is a dead thing.

"There cannot, in short, be intrinsically a more insignificant thing, in the economy of society than money; except in the character of a contrivance for sparing time and labor. * * * It only exerts a distinct and independent influence of its own, when it gets out of order."—*Mill.* For the uses of money, compare also Bolles, ch. VII.

§ 43 The functions of money being known, the properties which must be possessed by the money material may be easily discovered. The money properties are seven:

(1) Universal acceptability. It does not matter from what cause this may arise.

(2) Portability, which is demanded by convenience and economy.

(3) Durability, which is an essential quality, because money serves as a standard of value.

(4) Homogeneity, which is required in order that any part of a given quantity of the money material, however it may be divided, may possess a value bearing the same relation to the value of the whole, as the quantity taken bears to the entire amount.

(5) Divisibility, which is required in order that exchanges of all grades of value may be made.

(6) Stability of value, which is demanded by the standard of deferred payment function of money.

(7) Cognizability.

Gold and silver have been selected by all civilized peoples as those commodities, combining, in the highest degree, these required properties.

Compare Jevons (b) ch. V. Walker, (b) p. 33. Price, (b) p. 10. McAdam, ch. III. Chapin-Wayland, pp. 290—297. Perry, pp. 234—274.

The history of money material is quite interesting, and shows that universal acceptability, based upon intrinsic qualities which adapt the thing for use, was the first money property recognized as essential. Sketch of money material used by peoples in various stages of civilization, and in the various climates. Compare Roscher, § 118 notes, Jevons, (b) ch. IV.

§ 44 A study of Coinage brings up all those questions respecting the preparation of money material to serve the money functions. Coinage may be defined as such a preparation of money material that each piece bears on its face evidence, both of its quantity and its quality.

Compare Walker, (b) ch. IX. Jevons, (b) ch.'s VII. and VII. Chapin-Wayland, pp. 299—305. For facts respecting coinage regulations of the United States, see Linderman's Money and Legal Tender.

Every coinage system embraces three classes of coins.

(a) Standard coins, the unit among which is the standard unit of value, which serves as the basis of the monetary system. A standard unit of value must always be a fixed quantity of a fixed quality of a specific commodity.

The basis of the monetary system in the United States is the gold dollar, which contains 25.8 grains of gold nine-tenths fine. The silver dollar, containing 412.5 grains of silver nine-tenths fine, is also legally a standard coin, but at present prices are not graded to it.

(b) Subsidiary coins are coins of less denomination than standard coins, which have a nominal value greater than the market value of the metal which they contain.

Examples of subsidiary coins are the half-dollar, the twenty-five and ten cent pieces. Thus the half-dollar, worth in trade one-half as much as 412.5 grains of silver, contains but 192.9 grains of silver. The twenty-five and ten cent pieces hold proportional relations to the half-dollar.

(c) Minor coins are of still smaller denominations than subsidiary coins, the metal value of which is greatly below the nominal value.

Legal tender money is such money as a creditor is bound to take if offered to him, or lose his right of recovery at law.

The monetary system of the United States embraces six kinds of legal tender money.

A good coinage system requires that the design of coins shall be such as to render counterfeiting very difficult, to prevent fraudulent removal of the metal, to reduce the wear of coins to a minimum, to render the coins convenient, and to make the design upon them educative.

§ 45. Under Principles of money Circulation is included a consideration of all those movements in the money medium, by means of which prices are influenced or industries affected. Those laws governing money in circulation here studied, may be conveniently grouped under the four following points:—

(a) Respecting the value of money as dependent on its quantity.

By value of money is here meant the purchasing power of the monetary unit, not the interest which money commands. "The value of money is inversely as general prices." There are four possible movements which may effect a change in the proportion, existing at any time, between the amount of money in a country and the goods seeking exchange.

(1) { The amount of money may increase,
The amount of goods may decrease.

(2) { The amount of money may decrease.
The amount of goods may increase.

The first set of movements effects a fall in the value of the monetary unit; and a rise in price of goods; the second produces an opposite result.

Quantity of money, however, is a relative term. The rapidity with which money circulates, being the result of the custom which a people may have adopted respecting exchanges, is a factor which goes to make up what may be termed the effective amount of money.

The law at which we arrive is: The value of the monetary unit is, at any time, inversely as the amount of money in the country.

Compare Mill, B. III., ch. VIII. Walker, (b) ch. III.

(b) Respecting the value of money as dependent on the cost of producing the precious metals. Although the exchange value of gold and silver used as money is, at any time, in proportion to its quantity, a further analysis shows that the precious metals are, like other produced commodities, subject to the law of cost of production. (See § 41, a).

Compare Shadwell, p. 270; Chapin-Wayland, p. 296; Mill, B. III., ch. IX; Price, (b) p. 20; Perry, p. 253.

There are three reasons why this law of cost of production may not easily be perceived with respect to gold and silver:—

(1) Government, at times, interferes to limit coinage, in consequence of which the exchange value of the coined metals may not be their cost of production value. This, however, cannot apply to international trade.

(2) The employment of metals as the unit of expression for other values, renders it difficult to express the value of gold and silver.

(3) The law of cost of production works quickly and visibly with those commodities only which may be rapidly produced and rapidly consumed, and of which there is, at no one time, a great quantity in existence as compared with yearly production.

(c) Respecting the concurrent circulation of superior and inferior money. The principle explaining this fact is known as Gresham's law, and as usually stated is: A superior and an inferior money cannot circulate together; the inferior will drive out the superior. This law, however, which is frequently employed in argument as universally true, is only true where there is a superabundance of circulating medium, that is, where, on account of the abundance of money, the prices of one country are higher than the prices of another country, in which case the superior money, or full weight coins, will be paid away in international trade. Where foreign prices are higher than domestic prices, good and bad money will continue in concurrent circulation, all passing for good.

Compare Walker, (b) p. 193; Mc Adam, ch. VIII. This law may be explained by familiar illustration. The following is submitted as a more satisfactory statement of the law, both because it is accurate and because it explains itself, by incorporating the idea of price, which is the instrument by which the law effects its result. The statement is: When domestic prices are graded to the superior coin there will be a concurrent circulation of superior and inferior coins, as though all were equal in bullion values; but, when domestic prices are graded to the inferior coin, the superior coin will disappear from circulation. Consider the Allison amendment to the silver bill.

(d) Respecting the territorial distribution of the precious metals.

To clearly state how much money a country needs, was one of the services rendered to Political Economy by Ricardo. He properly considered it a question of proportion, and not of absolute quantity. According to him also, each country was said to be possessed of its normal share of the world's stock of money, when its prices were on a par with the prices of neighboring countries. The law is simple, viz.:—The precious metals will flow to that country where their value is the highest, or, what amounts to the same thing, where prices are the lowest. Money which is recognized by all nations is self regulating as regards amount. The criterion, as to whether a nation wants more or less money, is price.

See Ricardo's pamphlet "On the High Price of Bullion," (1809). Compare Walker, (b) ch. III; Price, (b) p. 21; McAdam, ch. VII; Chapin-Wayland, p. 296; Fawcett (a) ch. VIII. Historical importance of the publication of Ricardo's pamphlet. Other methods by which it has been attempted to determine the amount of money required by a country.

§ 46. The important question respecting every monetary system is, upon what unit of value shall it be based? As a practical question at the present time this may be reduced to the following: Shall a nation adopt the Single Legal Tender system based upon gold, or the Double Legal Tender system based upon gold and silver at a fixed legal ratio? Very few economists advocate silver as the basis of a Single Legal Tender System. A study of this question will be most advantageously pursued by a consideration of the arguments presented for and against these two systems.

(a) The great claim, which the Single Legal Tender System presents, lies in its certainty and simplicity. The unit of value is a definite quantity of a single commodity.

The only source of error possible, in calculation based upon this unit, arises from fluctuations in the value of the chosen money commodity. Gold takes precedence over silver, because it embodies greater value in less quantity and so is more convenient; the majority of trading nations (United States and France included, on account of the restricted coinage of silver) are upon the gold basis.

The important argument against monometalism is, that if all nations should adopt a single metal as money, the volume of money would be so contracted, that the value of the standard unit would be increased; this would effect a rise in the value of all incorporeal property and rest heavily on those who are in debt. Indeed some advocates of bimetalism go farther and claim that an advancing society requires a gradually depreciating currency.

Compare Walker's chapter on "The Importance of the Money Supply" (b) ch. IV. "The Decline of Prosperity and its Insidious Causes," by Mr. Seyd.

(b) Those who advocate the Double Legal Tender System address themselves to the necessity of a stable standard for deferred payments, and claim that the employment of both gold and silver at a fixed ratio, will better secure such a standard than either metal alone.

This is based on two claims:

(1) The larger the volume of money material the less influence will any discovery of new mines have upon the value of the exchange unit.

(2) The interchangeableness in use of gold and silver tends to render their value stable.

The similarity in physical properties renders them interchangeable in the arts, the use of both as money increases the strength of this argument in direct proportion to the number and importance of the nations so employing them. This is also called the equalibratory or compensatory action of the two metals used as money.

Compare Jevons, (b) XII; Walker, (b) pp. 248—260.

The arguments urged against the use of two metals as money are three :—

(1) That law cannot fix the ratio of exchange between gold and silver, hence the double standard is at best an alternate standard.

The best economists, who support the double standard, like M. Wolowski, admit that the nation adopting it runs the risk of losing its more precious metal, while they do not claim that legislatures can influence values except by obeying the laws of value. In justice, also, it must be remembered that bi-metalists propose international coinage regulations.

(2) That, owing to the late unprecedented depreciation of silver, that metal is no longer fit for money.

To determine the force of this argument it is necessary to discover the causes of this depreciation. If they be found to be permanent, the argument is good; if but transitory, the argument loses it force. The fact is not denied. Between 1872 and 1877, the bullion ratio between gold and silver varied from 15.61 : 1, to 20.17 : 1. For this four causes may be mentioned. (1) Many nations were upon a paper basis. (2) Germany and Scandinavia demonetized silver and monetized gold. (3) The unprecedented production of silver threw the money market into a panic, a result similar to that which followed the discovery of the Californian and Australian gold mines. (4) The Indian demand for silver had ceased. Consideration of these causes as regards their permanency.

From the above discussion we may come to the following practical conclusions: First, no single nation can afford to adopt silver as its unit of value, while the commercial world is upon the gold basis, and the country which holds to bimetalism must maintain restricted coinage. Second, that while no single nation could adopt the Double Legal Tender System with free coinage for itself, there is no sufficient reason for believing that international coinage, embracing the leading nations, could not be successfully maintained with gold and silver at a fixed ratio, and both legal tender; also, the necessity of an adequate money supply would lead one to defend, as international money, the employment of both metals.

§ 47. The monetary system of all peoples, who have developed in any degree their knowledge of credit, includes paper instruments for effecting exchanges. It would be an error to grant to all these paper instruments the name of money, although all do have an influence on price as dependent on the volume of money. It is equally an error to withhold the name of money from such instruments as are recognized by the law to possess in themselves the power of transferring property. Of such a character are Legal Tender notes whether convertible or inconvertible. A study of convertible notes will find place under Banking; we here consider inconvertible paper money.

The theory of paper money is simple, and is based on what is learned from a study of Seigniorage. A statement of this theory is that paper may be regarded as a coin upon which the seigniorage has amounted to one hundred per cent.

Seigniorage is the difference between the mint value and the bullion value of the coin, originally taken to pay for the process of coining. Seigniorage has no effect upon price so long as the metal extracted is not itself coined, for the value of the monetary unit depends upon the number of units in circulation, not upon the quantity of the metal. Compare Walker, (b) ch. X, also pp. 276–280; Shadwell, B. III., ch. V., where it is claimed that increased quantity of gold and silver, not used as money, has no tendency to depreciate the value of money.

It is not in the theory but in the practice that the real difficulty lies, of any continued satisfactory realization of the doctrine of inconvertible paper money. To render such notes acceptable in domestic exchanges, it is only necessary, (1) that they be issued upon the authority of a government whose durability and policy is not doubted, and, (2) that they be possesed of legal tender character.

That they may not injuriously effect prices and value, it is necessary that they be not issued in excess; while domestic prices are on a par with foreign prices (except where the discrepancy may be traced to causes independent of the circulating medium) there is no excess. The argument against paper money is found in its history.

For chapters upon the history of inconvertible paper money, compare Walker, (b) ch.'s XV., XVI., XVIII.; White, "Paper Money Inflation in France;" Sumner, History of American Currency. Prof. Sumner treats also of the English Bank Restriction.

IV. BANKS AND BANKING.

Bibliography of banking in general:—

H. D. MACLEOD, The Elements of Banking, 1877.
J. W. GILBART, Practical Treatise on Banking, 1872.
HANKEY, Principles of Banking, 1876.
WALTER BAGEHOT. Lombard Street, 1876.
PROFESSOR PRICE, Currency and Banking, 1876.
MORSE, Treatise on the Law Relating to Banks and Banking, 1879.
HOMANS, Banker's Magazine.
KNOX, Reports of the Comptroller of the Currency, 1875–76.

Under the name of Banks, are included institutions which, although performing three distinct functions in industrial society, are alike in this, that they have to do with the exchanges of commodities and management of capital. No comprehensive definition of Banking will be attempted, but the three forms of Banking, Banks of Deposit, Banks of Discount, and Banks of Issue, will be submitted to successive study.

These functions are not necessarily performed by different institutions; they may all be undertaken by a single body. In large money centres, however, the classification of the banking system is very minute.

A.—DEPOSIT BANKS.

§ 48. Deposit Banks are institutions established for the safe keeping of moneys and evidences of property, and for providing the means of effecting credit exchanges. A deposit is a credit created by a banker in favor of his customer.

Such credits may be created in four ways:—

First, by the actual deposit of money.

Second, by the deposit of checks or notes.

Third, by the sale of a note to the bank, the proceeds of which are passed to the credit of the vendor.

Fourth, when the bank makes a loan by increasing the sum accredited to its customer. Case of cash credits.

In the light of these operations, Mr. MacLeod's definition of a banker may be understood: "A Banker is a Trader who buys Money, or Money and Debts, by creating other Debts," p. 148. The law recognizes a deposit bank as a private corporation, and the relation existing between a banker and his customer to be that of simple debtor and creditor at common law. Morse ch. II.

Banks of deposit render three services to industrial society.

(a) They provide safe custody for moneys and evidences of property. The history of their rise shows this to have been one of the objects of their establishment.

Nothing is now charged by the banker for receiving deposits. He procures his remuneration from the use of the money while in his hands. Ricardo's conception of a banker is here pertinent, when he says the banking business properly begins, when a man begins to lend the money of other people; while lending his own he is a capitalist.

(b) As a second service, banks of deposit facilitate exchanges, by creating credits in favor of their customers, or by selling the credit which they may have with other banks. These evidences of debt which are employed as a means of payment are in the first case called checks, in the second drafts.

(c) The third service of deposit banks is, they assist in capital-building. By them the little surplus funds of capital (small savings) are brought together in a large fund which may be employed in industries. This is the especial function of savings banks.

Illustrations of check and draft payments, as showing how that, by means of them, commodities may be exchanged without the use of money. The use of drafts, between different parts of a country, is based upon the principle that, on the average, no greater value of commodities will be shipped from any section than it receives. The definition of a banker given by Prof. Price, is pertinent respecting this banking service. "A banker is a broker between two principals," (b) p. 106. The same principle is carried out in the Clearing House. Compare Jevons, (b) chs. XX., XXI.

B.—Banks of Discount.

§ 49. Before stating the service rendered to industrial society by banks of discount, it will be necessary to speak of the forms of paper which are employed in this business. These banks deal in Bills of Exchange, Bills of Lading, and Dock Warrants. Notes are sometimes accepted, but very seldom by large banks.

A note is a simple promise to pay by a debtor. A bill of exchange is an order to pay from a creditor.

A study of the form of the two documents will show this distinction. Such a study shows that a bill, as mercantile paper, is of a higher grade than a simple note, since it represents two responsible parties. A real bill always represents a bona fide mercantile transaction, hence one knows that, when a bill of recent date is presented, there are commodities in existence to correspond.

Bills of exchange are essentially different documents from checks. Compare MacLeod, pp. 105—109.

Bills of Lading and Dock Warrants, are receipts given by transport companies, or storage agents, for goods received. They differ therefore from bills of exchange in that they represent specific goods, named and described. The holder of these documents is recognized as owner of the goods.

Compare MacLeod, pp. 73—79.

Discount and Interest are alike in that both are payment for the use of capital, and differ from one another only as regards the time at which this paymemt is made.

Interest, (except in case of partial or periodic payment) is added to the principal when full payment is made.

Discount is deducted from the principal when the loan is made.

Illustration of these two forms of capital remuneration. Discount is more profitable than interest, first, because the money taken in discount may be immediately reinvested; second, because the discount is computed upon a larger sum than is actually loaned.

The difference at one per cent is .010101.
" " ten " " 1.111111.
" " fifty " " 100.000000.
" " one hundred per cent is infinite.

Discount Banks render the great service of carrying a country's commodities, during the time which intervenes between the various processes in production, and between the last process of production and final consumption.

To show that banks perform this service, it will be necessary to analyze quite carefully the methods by which property in commodities is transferred, as the goods themselves pass from the original appropriation of the material through the hands of the manufacturers, to the consumers. It will be found that each individual has greater control over circulating capital than would be possible were it not for the intervention of the banks. Such an analyssi will explain, also, the periodic movement of money to and from money centers.

C.—Banks of Issue.

§ 50. It is the province of Issue Banks to supply the country with such paper money as it needs. This formerly was considered a proper business for a private irresponsible corporation, but at present, nearly all nations have placed this business under governmental control.

These banks render three services:—

(a) They supply the country with convenient money.

(b) They save the country the yearly interest upon the value of the coin displaced, so far as it is exported and exchanged for capital.

(c) By means of the use of notes as money, the country is saved the loss which would be entailed by the wear of the coin.

§ 51. There are several questions which arise in connection with the study of banking, properly known as Banking Questions, a few of which will be here considered.

(a) What ratio should be maintained between a bank's liabilities and its reserve?

There is no definite answer to this question, for the business of banks is so very varied, that what is a good rule for one will not apply to another. "Every banker must be guarded by the experience of his own bank."—*Gilbart.* It is the purpose of every bank to make the greatest profit upon the money at its disposal; its reserve will therefore be as small as safety will allow.

(1) The amount of reserve to be kept depends upon the nature of the bank's liabilities.

The greater the number of the customers for a given sum of deposits, the smaller may be the reserve. If the depositors are engaged in a business in which the time of their demand may be calculated, the bank requires a less reserve than if it run the risk of being called upon to pay at any moment.

(2) A bank which adds to a deposit and discount business the issue business, requires less reserve of legal tender money than a mere deposit bank.

(3) Those banks which are connected with a clearing house require less reserve than others.

(4) Banks in a country where the credit system is well developed, can carry large liabilities upon a comparatively small reserve cash basis.

According to Mr. Bagehot, the proportion of cash reserve to liabilities in the English banks was, in 1876, 11.2 per cent; in banks of the United States, 12.3 per cent; in the Bank of France, 25 per cent; in the banks of Germany, 47 per cent.

(b) What kind of credits may banks create? With regard to investments, bankers make it a general rule never to lend money on dead security, that is, security which may not be readily converted into available funds.

Real estate security is dead security, and no bank, unless it be a small country bank, performing the part of a loan agency, should advance money upon it. Provision of National Banks respecting real estate.

Good mercantile paper is the safest and most profitable form of investment for moneys held on call, and the character of paper is determined by the names of the men or firms attached. The bills must represent a transaction, and not be accommodation paper. "Persons out of buisness have no right with bills."—*Gilbart.*

Bills of Lading and Dock Warrants are usually considered inferior to simple bills, because the banker, in loaning upon them, becomes a speculator in the goods upon which they are based. If employed, the banker should see: (1) That all the bills are present, and, in case of bills for goods shipped upon the ocean, accompanied by the insurance papers. (2) That the goods are not of a perishable nature and are of stable value. (3) That a margin be left for loss.

Government bonds are frequently employed while the bank is waiting for a more remunerative form of investment. Other stocks are usually to be avoided because speculative.

(c) Shall banks pay interest on deposits?

This question applies to money deposited on call only, not to time deposits. The present tendency is either to abandon the payment of all interest on deposits or to reduce it to the lowest rate possible. In favor of payment of interest two arguments are urged. (1) Even for the shortest interval money is worth something and its owner is entitled to that something. The fallacy in this is the idea that money breeds money. Money is worth nothing when the capital it represents cannot be employed productively. (2) Interest on deposits presents an inducement to save, and thus effects a rapid building of capital. This is a good argument in favor of Savings Banks and time deposits, but not for paying interest on call deposits.

The great consideration against this custom is, that it presents an inducement to the banker to undertake speculative investments, and that this temptation is the strongest just when good investments are the rarest.

For a comparison of London and American banks on this point, see Homans' Banker's Magazine, May, 1877.

§ 52. It will not be possible to consider here, thoroughly, all the questions which arise in a study of Banks of Issue. The single problem of the rule by which the amount of issues should be regulated can here claim attention.

Respecting this point, there are two schools of writers, the one upholding what is termed the Banking Principle, the other the Currency Principle. Both agree, however, upon one point, namely: that paper currency ought, in its fluctuations, to conform exactly to what would have been the fluctuations of specie, supposing it not to have been displaced by paper. The point upon which they join issue is whether or not the fluctuations of currency must so conform, if only the notes be convertible. Those who hold the Banking Principle claim that an excess of convertible notes is impossible, for they cannot be gotten out; or, if gotten out, they cannot be made to stay out. Good banking is all that is required to insure good money. Those who hold the Currency Principle admit that inflation of convertible notes cannot long continue, but claim that it may continue long enough to do great mischief; hence the issue of notes should be placed under some more severe regulations than merely the rules of good banking.

Among the writers who uphold the first principle are Mr. Mill, Professor Price and Mr. Wilson. "Capital, Currency, and Banking." The Currency Principle is defended by Lord Overstone, "Tracts on Metallic and Paper Currency;" Mr. Tooke, in his earlier writings, and Colonel Torrens, while Sir Robert Peel, who adopted their views, carried through Parliament the Bank Act of 1844, which attempts to realize the Currency Principle.

For a study of this Act compare Price (b) ch. II., sect. II. Walker (b) ch. XX. Mill, B. III., ch. XXIV. Jevons (b) p. 312. Bagehot (b) ch.'s VII., VIII. Macleod, ch. VIII.

§ 53. Paper money in the United States is of two kinds; that issued by the government, which is now convertible into specie; that issued by the national banks, which is convertible into legal tender. The issue of bank notes is a free business, in the sense that any one can go into the business; it is restricted in the sense that whoever undertakes it must conform to certain regulations.

The Act of 1863, by which the national banks were established, recognizes two banking principles with which the American public had become familiar; the one found in the Suffolk bank system, the other in the New York law for free banking of 1838.

From the first it derived the idea that several counters at which notes might be presented for redemption would be more likely to save them from depreciation than if notes could only be redeemed at a single counter.

From the second it adopted the custom of basing the issue of notes upon public stock, deposited with a public officer, in which case the State became responsible for the notes.

Compare the Comptroller's Report for 1875 and 1876; also, Walker (c) ch. XII. Chapin-Wayland, pp. 336–345. Rise of the Suffolk system, sketch of New York banking history, failure of the Safety-Fund Banks, provisions of the United States banking law. Consideration of the arguments against this system.

PART V. DISTRIBUTION.

LAWS WHICH GOVERN THE SHARING OF COMMODITIES.

§ 54. During the process of production, the various members of industrial society work in harmony, all having the same purpose, since the greater the amount of wealth produced the greater may be the share of each engaged in production. It is out of the distribution of wealth that the discords of society arise; hence it is this problem, as Mr. Ricardo very properly says, which "is the principle problem in Political Economy." Out of it grow all those proposals for industrial reformation with which economic literature at present abounds.

Probably the most fundamental fact, and the fact most frequently forgotten in this discussion is, that distribution is "a matter of human institution solely;" the laws of distribution serve as the best criterion of the character of the industrial society considered.

Compare Mill, B. II., ch. I. Present society and the idea of private property. Questions of national income. Restatement of the classes among whom this income is to be shared. Fawcett (a) B. II., ch. II.

The question of distribution is primarily a class question, not one between individuals.

In the individualistic society of the present, free competition is regarded as the arbitrator between the various classes, assigning to each a definite portion of the general product. It is not claimed by all economists who defend this principle of free competition as a distributor, that one may find in that which it effects a realization of perfect justice, although that position is accepted by Bastiat and his followers; it is only held that, as society is at present constituted, justice may be the more nearly realized through granting the economic forces free play, than by any other practicable means.

As showing the advantages and disadvantages of an industrial system based upon free competition, compare Rau-Wagner, v. I., § 126–139. Roscher, § 97. For competition as a factor in distribution, see Walker (a) p. 157. Fawcett (a) p. 111. Other principles of distribution have been advocated; thus individual want, sacrifice in production, efficiency of labor in contributing to the fund to be distributed; each has been proposed as the basis of rules for distribution. Compare Cairnes (b) pp. 263–268. Criticism of the idea that harmony of interests will be secured through competition.

A.—RENT.

§ 55. Rent is that portion of the general product which the owners of land appropriate by virtue of their ownership.

In studying rent, it will be necessary to inquire first what the share of the landlord would be if determined alone by free competition among the farmers; and second, what portion of this real rent,—(competitive rent)—the landlord actually secures, under various systems of land tenure.

For a study of rent, compare Cairnes (a) Lecture VIII. Ricardo, ch. II. Mill, B. II., ch. XVI. Shadwell, B. II., ch. V. Price (a) ch. X. George, B. III., ch II. These authorities practically agree respecting rent, representing the Ricardian doctrine. As opponents of the doctrine, are Rickards, ch. VI. Carey (a) v. I., ch. IV. E. P. Smith, ch. IV. Thompson, §§ 75—129. Prof. Perry confounds rent with profit, p. 200, and bases his explanation of the value of land upon a theory out of harmony with the doctrine, pp. 190–199.

(a) Rent, in the purely economic sense of the word, comprises that portion of the proceeds of agricultural industry, beyond what is necessary to repay the whole cost of production, including farmer's profit. Rent is surplus profit on capital invested upon the land. This surplus profit will never appear, and the question of rent never be clearly understood, until one distinguish sharply between the price paid for land, (usually called invested capital), and the farmer's capital, or capital applied in working the land. It is only when the entire proceeds of a given piece of land are computed as arising from this latter source, that the surplus profit of agricultural industries is discerned. If the price of land be included in agricultural capital, no surplus will ever appear, because the value of land is at any time this surplus capitalized at the normal rate of interest; that is, it is capitalized rent.

Illustration by familiar examples. All attempts to explain rent have been attempts to explain the source of this surplus profit. The Physiocrats explained it by saying that in agricultural industry alone was there a positive increase in quantity produced. But this does not show why, under a system of free competition, the price of agricultural products remains high enough to permit the farmer to pay a surplus to the landowner. Adam Smith explained rent by saying that the demand for food was constant and pressing, and, in consequence, the landlords could coerce the market. But this is inadequate, for corn is capable of unlimited production; though land is monopolized, agricultural products are not. Compare Cairnes (a) ch. VIII., § 1.

The true doctrine of rent rests upon three propositions:—

(1) Agricultural produce is raised at different costs, owing to the different grades of soil cultivated.

Grade of soil depends upon three facts: its actual fertility, the amount of capital and labor required in its working, its position with respect to the market. Compare Price, p. 346.

(2) There can never be two prices for the same commodity, in the same market at the same time.

Especially true of agricultural produce and at the present time, this commodity has but a single market—the world.

(3) The average price which agricultural products must bring, is the price which will repay the cost of production under the most unfavorable circumstances; for if this price be inadequate to such repayment, cultivation will cease upon the lowest grade of lands; if this price be more than adequate to such repayment, either new lands will be taken up, or the old lands more intensely cultivated.

This movement will, of course, be effected through varying quantity of produce, and is in perfect harmony with the law of price submitted. This movement, also, is based upon the law of diminishing returns, and he who denies that law cannot logically accept Ricardo's doctrine of rent. Compare the four principles given by McCulloch in note III. to his edition of the Wealth of Nations.

The explanation of surplus profit in agricultural pursuits is now before us. Corn, used generically, is raised at varying costs, but sells at the same price, which price is the highest cost of production of any portion of all the corn which must be produced to supply the demand; that corn, therefore, raised under the more favorable circumstances, commanding as it does the same price, must pay to the owner of the land a surplus. The farmer cannot share in this where competition is free, because, competition being free, there are other farmers ready to take the land for a normal return upon capital invested.

This is usually illustrated by supposing varying grades of land, in which case the inferior land pays no rent, while the rent upon the other lands increases with the character of the land. Compare Ricardo, ch. II. McCulloch, Part III., Lect. V. Jevons (a) ch. VI., where a symbolic statement of the theory is given.

Two corollaries may be drawn from this study of rent: (1) High prices of agricultural products are the cause, not the effect of high rents. (2) A tax upon rent will have no effect upon price. Ricardo, p. 52, and ch. X. That the value of land is capitalized rent may be seen from the fact that when one buys land he buys perpetual freedom from rent. Compare George, p. 149.

The objections to this doctrine of rent are urged under two forms:

(a) The law of diminishing returns, as a practical law is denied, and hence the doctrine of rent, which is based upon it, is refused acceptance.

Compare Rickards, ch. VI. This point is answered by Prof. Cairnes (a) Lecture VIII., § 5.

(b) A study of history shows that as a matter of fact, the best lands were not cultivated first, but the thin uplands.

See Carey's Past, Present and Future, or Principles of Social Science, v. III., p. 136. Thompson, ch.'s V., and VI. Such an objection speaks to the form, not to the essence of the doctrine, for it makes no difference in what order the lands came to be cultivated, so long as at any time there exists varying grades of land, the cultivation of which is required to meet the demand for food. Compare Mill, B. II., ch. XVI., § 5, note. Mr. Carey holds that the value of land is the result of labor and capital expended upon it. Compare Thompson, p. 128; also Perry, p. 190.

If free competition were not opposed by other forces, competitive rents would be the actual rents paid, but in few instances is this the case. Wherever competitive rents, or "rack rents," are imposed the condition of the tenant is very unsatisfactory. Wherever by any means the tenant is permitted to share the rent, the agricultural condition of the country is not usually subject to severe criticisms.

The explanation of this is, that the tenants have presented to them motives for industry which strengthen as the proportion of surplus profit which comes to them increases. In studying the various forms of tenure, however, one must not forget that permanent improvements in land, by which land is transferred into a higher grade, act, so far as rent is concerned, as superior natural fertility, hence the question of who makes the improvements, the landlord or tenant, is of greatest importance.

This subject must be presented by a somewhat extended illustration of the various forms of land tenure. These are, stated in the order in which the tenant's interest in the land increases: (a) The yearly lease, where the tenant has no property in his holding or in improvements which he himself may have made. Mill, B. II., ch. IX. This state of things existed until the Land Act of 1870, in the southern provinces of Ireland. For a study of the Irish Land Question, compare Cobden Club Publications, 1870; essay by Longfield, "Land Systems of Ireland, England and the Continent;" Cliffe Leslie; "History of the Irish Land Tenure;" North British Review, v. 51; The Act of 1870, New Englander, Jan. 1881; "Political Economy and Land," Cairnes (c) Essay VI; The Irish Land Question, 1880, Barry O'Brien. (b) A time lease, improvements regulated by contract. (c) A lease in which the rent is not fixed, but where the produce of the land for the year is divided between the owner of the land and the tenant, at a fixed ratio. Permanent improvements are made by the landlord, who also provides part of the capital required. This is the usual form of rental in the United States. Compare Mill, B. II., ch. VIII. Consideration of the form of tenure springing up in the Southern States. (d) Where the farmer is himself the owner of the land, and hence receives all the rent or surplus profit; that is, Peasant Proprietorship. Mill, B. II., ch.'s VI and VII.

§ 56. The question as to what effect the progress of society has upon rent, is more than a question of property to individuals. It involves the problem of class relation and tendencies where there is no legal hindrance to the accumulation of property in land, and where the principle of free competition is unchecked. Social progress includes three forms of industrial growth:—

Growth of population, growth of capital, and improvements in machinery. Clearness of analysis requires that each of these be considered as though it were the only movement to be studied.

(a) Increase in population which produces an increase in the demand for food, must effect a rise in the price of breadstuffs, or the added amount required will not be forthcoming. The effect of this is a rise of rent. This is denied by Shadwell, pp. 69, 70.

The landowner then is at an advantage in exchange, in all progressive countries. Same principle applies to the value of real estate in growing cities. This is the explanation of Mill's "unearned increment."

(b) An increase of capital, resulting in the fall of interest, although it diminish the cost of producing breadstuffs and reduce price, will have no effect on rent. It would, however, effect a fall in the price of land.

Prof. Fawcett [(a) p. 122] has mistaken the effect of a fall of interest. No new land will be taken into cultivation unless, through the decrease in price, the demand for food be increased.

(c) Improvements in machinery, as applied to land, are of two kinds: such as lessen the amount of labor necessary for the production of the required amount of breadstuffs, and such as increase the amount produced at the same cost. The first, while it cheapens food, has no influence on rent; the second will cheapen food and decrease rent, since less land is called into use to meet the demand for food.

Compare Mill, B. IV., ch. III., § 4.

B.—INTEREST.

§ 57. Interest is payment for the privilege of control over free capital. It comprises that portion of the general income which the owner of capital is able to appropriate for himself as compensation for this privilege. The purpose to which the borrower puts the capital does not alter the nature of interest; the lender only requires that control over an equal amount of capital be eventually returned to him, with an increment corresponding to the time intervening between the contracting and payment of the debt. There are two questions which arise in this study: first, what is the economic defense for the payment of interest? Second, what regulates the rate paid?

Compare for the general study, A. Smith, B. I., ch. IX. Say, B. II., ch. VIII. Ricardo, ch. XXI. Roscher, §§ 179-195. Chapin-Wayland, ch. XVI. Fawcett (a) B. III., ch. XII. Mill, B. III., ch. XXIII.

Interest and profit, though closely allied, should be kept distinct in any analysis. For the contrary opinion see Rogers, p. 131.

(a) It is the function of capital to increase the efficiency of labor, and thus render it possible for the same amount of labor to effect the creation of a larger quantity of wealth. It is this fact which renders it possible for the owner of capital to secure compensation for its use from him who hires laborers, or from the laborer himself if he be an independent workman. In this, too, lies the defense of payment of interest, since, unless interest were paid, no capital would be accumulated. The justice of interest is seen when one recognizes that the process of capital building originates in conscious abstinence.

Interest as the reward for abstinence was first recognized by Senior, p. 59. Mr. George's objection, that abstinence is simply doing nothing, and hence should be entitled to no reward, p. 157, is answered by Senior himself. There is a difference between the cause for the payment of interest by an undertaker, and the justice of its being received by one who has accumulated capital. For defence of interest, see Bastiat's Essays. Criticism upon Ruskin and George.

(b) Although the employment of capital, and of the methods which the possession of capital permits, increases the efficiency of labor, the capitalist cannot claim the entire increment, since, in that case, there would be no motive for laborers to adopt the better methods. It is the hope of profit which induces the undertaker to pay for the use of capital, and this profit is built out of the difference between the proceeds of the industry in question, before the superior method of production has been adopted, and the proceeds after the borrowed capital has permitted the better methods to be employed, minus the amount paid in interest. This introduces the first of the three factors by which the rate of interest is determined.

(1) The rate of interest depends upon the rate of profit which industries pay, in the sense that this sets the limit above which the rate of interest cannot go.

(2) The rate of interest falls as the amount of available capital increases, viz.: the rate of interest varies inversely with the size of the free-fund.

In this we find the point below which interest will not go, for the available fund will not be increased unless the inducement to abstinence is considered sufficient. This is but the application of the law of utility to capital, and the doctrine of price as dependent upon quantity.

(3) The actual rate of interest is determined (supposing a normal rate of profit to exist which results from competition among undertakers) by the degree of assistance rendered to labor by the last increment of capital: viz., by the percentage of the increment of proceeds to the amount of capital last added to effect that increment.

Relation of this to the doctrine of rent. It recognizes the rate of pure interest to be uniform. Compare Jevons (a) p. 235. The varying rates of interest actually paid are accounted for by the kinds of security offered, but this is no part of pure interest. George, p. 155. Case of State bonds. Compare Shadwell, B. III., ch. IX.

§ 58. It is an observed fact that the rate of interest which capital may command decreases as industrial society progresses. It is assumed, also, that a movement in the rate of interest is a sure test as to whether a country is industrially progressive or in a state of decline, and history supports the assumption. From this there has been deduced what is termed the law of profits, which is, that there is a constant tendency of profits to a minimum. This law requires a satisfactory explanation, for upon it depends the position which one must take as regards all future industrial and social development.

My only apology for not incorporating in this outline an attempted explanation of falling profits is that, as yet, I have been unable to satisfy myself respecting it. Our study upon this point will be to analyze carefully the theories which have been presented for its explanation. The earliest of these which requires attention is that of Adam Smith, B. I., ch. IX. Mr. Ricardo wrote of this in ch. XXI. See Mill, B. IV., ch.'s IV and V. Carey (a) v. II., p. 335. Jevons, (a) p. 238.

There are here two separate questions to answer: The one is, why profits decrease in the midst of increasing facilities of production, which leads to the inquiry as to where this increased power of satisfaction goes; how is it expended? The other is, why, in the presence of decreasing inducements, do the proprietors of the free fund persist in converting it into capital, rather than apply it to luxurious consumption?

C.—WAGES.

§ 59. In the broadest sense, the word wages means the return to labor, irrespective of grade of work. As usually discussed, however, the wage-receiving class embraces only those who sell their personal property in time and strength, and that only for the performance of certain grades of work.

The word salary is used in distinction from wages, but there is no economic reason for this distinction.

Before entering upon a study of the law which governs wages, it will be well to inquire what the criterion of judgment is, as regards their being high or low.

Wages are to be judged from either the standpoint of the laborer, or of the undertáker.

(a) The laborer considers his wages as his living income and judges them to be high or low, according to the amount of satisfaction which he may procure with them. Thus high nominal or money wages may be low real wages, on account of high prices. The length of day, character of the work, and the like, as measuring the sacrifice of labor in question, are also elements in the laborer's estimate of his wages.

It is difficult to convert money wages into real wages. To do this with accuracy, the following points must be taken into consideration. Walker (a) ch. II.

(1) Variation in purchasing power of money.
(2) Form of payment. Case of presents expected by servants, granted privileges, etc.
(3) Opportunity for extra earnings.
(4) Regularity of employment.
(5) Duration of laboring power.

The laborer also compares his wages with what the non-wage receiving class procures.

(b) From the standpoint of the undertáker, wages are high or low according to the efficiency of the labor; that is, according to the value that is created by the laborer. It is of the slightest importance to him how much he gives, so long as the proceeds of the commodity produced will procure him a profit.

Compare Brassey, ch.'s III and IV. Shadwell, pp. 136–137. A study of the efficiency of labor shows that, from this standpoint, there is but little difference in wages paid the world over; though to the laborer there may be a great difference in wages received.

§ 60. The wage fund doctrine, as a law for explaining the rate of of wages, was first propounded by Mr. Mill. Although it is abandoned by the newest writers upon Political Economy, and has been modified by Mr. Mill himself, there is probably no way of studying the wages question so satisfactorily, as by tracing it in the development of this doctrine.

The wage fund doctrine is, that average wages depends upon the amount of capital devoted to the employment of labor, compared with the number of laborers to be employed.

For statements of this doctrine see Mill, B. II., ch. XI., § 3. Senior, Fourth Edition, p. 154. Walker (a) ch. IX. Perry, p. 151. Fawcett (a) B. II., ch. IV. George, p. 15. Cairnes (b) p. 159. This doctrine made the wages question simply a question of division, and had the effect of destroying all hope of any permanent elevation of the laboring classes. Relation of the doctrine to Malthusianism; to emigration; to the question of Trades Unions. Want of harmony between deductions and observed facts.

This doctrine has been subjected to three separate criticisms:—

(a) One class of critics denies that wages are paid out of capital, but on the other hand they claim that the laborer is paid out of the product of his own industry.

The above is Prof. Walker's statement; see (a) ch. VIII. Mr. George also urges this criticism. One of his statements is, wages are not drawn from capital, but are produced by labor, p. 44, which, properly interpreted is perfectly correct, for all agree that labor produces capital. He further states that the maintenance of laborers is not drawn from capital, p. 63, but to hold such a position he finds it necessary to give a peculiar definition to capital. Discussion of arguments presented by these writers. Case of failure of an enterprise in which laborers receive wages but succeed in creating no value. The doctrine is able to withstand this criticism.

(b) The second criticism presented is, that there is no definite part of a country's capital set aside for the payment of labor; that is, there is no predetermined or predeterminable wage fund, hence the doctrine is but the statement of a trueism.

As stated by Prof. Walker, this criticism reads: "There is no wage-fund irrespective of the number and industrial quality of laborers," ch. IX. Mr. Longe, 1866, urged that either the wage-fund doctrine was mere tautology, or untrue, according as it was interpreted. Compare Shadwell, p. 143. Mr. Thornton presents practically the same argument, pp. 84–85. Of writers later than Mr. Mill, the determinateness of the wage fund is defended by Prof. Cairnes, (b) Part II., ch. I., § 11. Compare also Brassey, ch. II. Prof. Cairnes' conception of the wage-fund is, that it is such as "a certain prospect of profit will determine," p. 185. Compare this with Walker's point, that prospect of profit is a potent factor in determining the rate of wages. Discussion of other points. This criticism appears to be valid against the doctrine, as showing that it states nothing which gives a satisfactory explanation of the share of wealth produced secured by the laboring class.

(c) The third criticism is, that labor is not a commodity which is controlled by the law of supply and demand.

This part of the doctrine is stated strongly by Rogers, ch. VII. Mr. Thornton denies the law as applied to any kind of commodities, and of course claims that the price of labor is not determined by it. Mr. Mill did not accept his views in full, but admitted that Mr. Thornton had pointed out a supplementary law in the application of the general law to wages, namely: that there may be several prices capable of satisfying the conditions of the law of supply and demand, and that, of these several prices, the laborer will probably receive the lowest. See Essays, vol. V., p. 28. From our own study of this general law, it has been discerned that all that is true in the law is, that supply will tend to adapt itself to demand, viz.: The law is one which determines quantity, not price. The wage-fund theory does not, then, appear to be an ultimate analysis of wages. Consideration of the effect of wages on production of labor. From the capitalist's standpoint, labor is subject to the law of utility, but from his standpoint only. Labor differs from other commodities in that it is connected with a personality which is self-acting.

§ 61. Is there then no true law of wages? There is, unless human actions are subject to caprice, of which the general constancy of human affairs precludes the thought. But this law must be deduced in view of two facts: first, the law must explain the return to the labor of the wage-receiving class, as it exists, and not include, in its cursory view, all remuneration to all actively; second, it must not be supposed that the law will continue to give a true explanation of wages, should industrial society be reorganized upon another basis, any more than that the law which governed the remuneration to the slave is now applicable to free labor.

The true law of wages must also perform two services:—

(1) It must disclose the causes which determine the minimum of wages which may be given.

This has always been recognized as a necessary part of a law of wages. Under the old doctrine, necessary wages, or wages which the laborer must receive or cease to propagate, were called minimum wages. Walker (a) ch. VII. The maximum point for wages is determined by the profit promised.

(2) The law must explain the varying rates of wages for different employments.

With regard to this part of the law, a starting point once secured, current economy affords adequate explanation, most economists following here the reasoning of Adam Smith, B. I., ch. X., which claims that variation in the rate of wages for different employments, depends upon the following causes:—

(1) Agreeableness or disagreeableness of employments.
(2) Difficulty of learning the trade.
(3) Continuity of employment.
(4) Degree of trust reposed in the laborer.
(5) Prospect of success.

One would not, however, err greatly in saying that the varying rates of wages depend on amount of skill required. Compare Shadwell, pp. 148–153.

In searching for the minimum of wages, it is necessary to trace the process of contracting back to a point where one or the other of the debating parties has a free alternative. Economists have frequently spoken as though the laborer had the alternative of dying if he did not like his wages, but that is hardly a free alternative, and no employer will be coerced by it. The free alternative is found when the laborer is in condition to ask himself the question, shall I work for myself or a master? Wages must be high enough to over-balance the motives for independent labor. They cannot fall below what the laborer might procure if working for himself, subject only to a deduction as an offset for risk and trouble avoided, nor will they, for any length of time, be above that point.

This is what Mr. George means when he says that wages depend on the margin of cultivation. Labor is highest in countries where land is free, because the establishment of one's self on land is easy. As one recedes from wild land to the centers of population, wages have a tendency to become lower. This law seems to be the reverse law of rent. Countries where laborers are inefficient cannot have high wages, nor can countries with efficient intelligent laborers have low wages, these words, of course, being used comparatively.

The law also applies, independently of land, to all trades, but it will be observed that industries carried on upon large capitals are able to press wages to a lower minimum than industries which may be successfully prosecuted with a small capital. The only guarantee that general wages will average (corrections being made for efficiency) is the transferability of labor.

PART VI. PRACTICAL ECONOMIC PROBLEMS.

It is not intended, in this part of the outline, to give as complete directions for study as has been attempted in the foregoing analysis of industrial society. It will be deemed sufficient to state clearly the problems to be solved, to indicate the most appropriate line of research, and to suggest some of the most important works upon the various phases of the questions under consideration. Under Practical Problems, the attention of the student will be directed to the following subjects:—

1. An analysis of the principle and a study of the effects of Free Competition.
2. Free Trade or Protection?
3. Crises, Commercial Depression, and Poverty.
4. The Migration Question.
5. The Transportation Question.
6. Social and Industrial Reforms.

COMPETITION.

§ 62. Competition, in its industrial, not its technical sense, may be defined as the free play of economic forces. The practical result of English economy, based upon the maxim of perfect industrial freedom, has been to unfetter many industries from governmental control and to secure to industrial forces free play. All that was hoped from this industrial emancipation, however, is found not to have been realized. New abuses have sprung up to take the places of the old. That which naturally comes first, therefore, among practical economic problems, is a reanalysis of this principle of free competition, for the purpose of observing if the claims urged by those who advocate it are in reality tenable, and if the results which it has effected are defensible.

This study will be grouped under four questions:—

(a) What is the origin and historic development of industrial competition, and what relation does it hold to personal and political freedom?

This question has never received the attention which its importance calls for. To understand it, a somewhat comprehensive study of the effective idea of the latter part of the eighteenth century would be necessary. It is suggested by Blanqui, ch. XLVI. Compare also Roscher, § 97.

(b) What is the theory of free competition?

For a study of this question, consult "Harmonies of Political Economy," by Bastiat. Garnier, ch. VII. Cairnes (c) Essay VII., on "Political Economy and Laissez-Faire." Carey (a) vol. III., ch. XLV. Wagner, §§ 126–133. Molinari, ch. III.

(c) What are the results, as disclosed by the present condition of society, of permitting the economic forces free play?

Compare Wagner, §§ 133–139. Molinari, L'Évolution Économique du dix-neuvième siècle, 1880. Report upon Internal commerce of the United States, 1879, Part II.

(d) What differences may be noticed in the course of development in industries, upon the basis of free competition, and the development of political society upon the basis of individual liberty?

Here again it will be necessary to rely upon one's own knowledge of constitutional development in its relation to industrial development, for nothing has been written directly respecting it. The purpose of this study is to notice where the tendencies of the two, the present political and the present industrial organization, are opposed to each other, and to determine which is worthy the greater consideration.

FREE TRADE OR PROTECTION?

§ 63. Little that is new may be discovered by the most persistent student of Free Trade or of Protection. It will be of assistance in the investigation of this question, however, to go carefully over the entire ground of the discussion, to classify and thus prepare for comparison the conflicting opinions held, and to make a practical application of the principles deduced to the existing condition of industries in the United States.

In accordance with this general purpose, the study here suggested will be included under six separate inquiries.

(a) An analysis of international trade as compared with domestic trade, for the purpose of determining whether the principles which regulate the one apply, without modification, to the other.

It is by no means intended to give all the bibliography of this question, but a few of the leading and accessible sources of information will be found of assistance. Compare Cairnes (b) Part III., chs. I., II., III.; Mill B. III., chs. XVII and XVIII; for opinions contrary to these writers, see Thompson, ch. X.

(b) The theory of Free Trade. Free Trade arguments may be thrown into two classes: the first embracing all those considerations which regard industries and commerce from the cosmopolitan standpoint, the second resting upon an analysis of free exchanges and including all that reasoning which claims free trade as the correct principle, even though a nation stand alone in practicing it.

For a study of this theory, compare Cairnes (b) Part III., ch. IV.; Fawcett, Free Trade and Protection; Bastiat, both (a) and (b); Price (a) ch. IX.; Economic Monographs, published by Putnam's Sons.

(c) The theory of Protection. This theory includes many points, not all of which are harmonious, and many of which embrace other than purely economic considerations.

Prof. Fawcett has devoted a chapter to the statement of this theory, (b) ch. IV. Cherbuliez also gives the protectionist arguments. Tome II., Livre II., ch. I. One phase of this system is upheld by List in his book, National Economy. Compare, also, Bowen, ch. XXIV. Carey, Harmony of Interests. Thompson, ch. XI. Horace Greeley, Political Economy. The speeches of Henry Clay upon the Tariff Question.

(d) The theory of Reciprocity. There are two forms of reciprocity, both of which are put foreward as a solution of the difficulties at present attendant upon international trade, the one being, reciprocity by retaliating duties, the other, reciprocity by treaty.

For a study of this compare Fawcett (b) ch. III.; Baden-Powell, ch. X.; A. J. Wilson, Reciprocity Bi-metalism and Land Tenure Reform, 1880, chs. I., II. A study of commercial treaties is of importance. Compare Economic Monograph No. IX; also, Cobden Club Publication, 1875, Free Trade and European Treaties.

(e) Protection in its relation to Public Revenue.

(f) Sketch of tariff legislation in the United States. The points to be here noted are two: first, the development of the protectionist idea, its origin, cause, and relation to other ideas; second, the effect which changes in the tariff have had upon industries and revenue.

For this study compare Young's Report on Tariff Legislation, 1874; Sumner's History of Protection in the United States; Carey's Harmony of Interests. Reports of David A. Wells to Congress, a Commissioner of the Revenue.

For the study of American Protection from the English standpoint, see Shadwell p. 505, and Cairnes (b) Part III., ch. IV., §§ 4, 5, 6.

(g) In closing this study, it will be necessary to inquire respecting the order in which modifications in the existing tariff should be undertaken, and the rapidity with which the country may, without disaster, be brought to the realization of its just policy.

CRISES, DEPRESSIONS, AND POVERTY.

§ 64. It is usually conceded that crises and commercial depressions are but different manifestations of the same general fact, and that poverty, which is a name given to that state in which individuals are deprived of, or can only procure with great difficulty, the requisites of existence, is in some way intimately connected with them. In explaining these industrial phenomena there is room for originality, for it can hardly be admitted that any complete satisfactory explanation of commercial fluctuations has as yet been submitted. A purely scientific explanation is necessary, however, before any reformatory plan is possible.

It is my purpose here to suggest, only, some of the lines of investigation which have been followed out, in search of such an explanation.

(a) The most common theory respecting these phenomena is that which gives particular attention to crises, and finds their cause in some disturbance of the circulating medium or in abuse of credit.

The ostensible purpose of the English Bank Act of 1844 was to avert crises. Overstone Tracts, pp. 489—635. For bibliography compare § 52. Upon theory of crises, see Bowen, ch. XXIII.

For historic study, see treatises by Max Wirth and Émile de Laveleye, also Twenty years of Financial Policy, 1842—1861, by Sir Stafford Northcote. For special crises, compare Richard Cobden, The Three Panics, London, 1862; Evans, History of the Commercial Crisis of 1847—1848, London, 1849; Fowler, The Crisis of 1866, London, 1866; Sternberg, The crisis of 1876, London, 1876; Wilson, Capital Currency and Banking, 1847.

(b) A second theory, which regards commercial depressions as the principal phenomenon to be studied, finds an explanation of them in disproportionate production, (compare § 22,) or in over production of some given line of commodities. The remedy which this explanation suggests, is that rational maxims of production be adopted which shall recognize the satisfaction of wants, and not the creation of a profit as the end of industrial organization.

This is, perhaps, a popular rather than a scientific explanation, though expression of it may be found in writings of certain economists. Compare Chalmers, ch. V., also, works of Sismondi. A clear statement of the inter-dependence of industries and of the delicate sympathy which exists between them may be found in Bagehot (b) ch. VI.

(c) Certain writers explain crises, and the consequent commercial depression, by a too rapid conversion of free capital into fixed forms, not immediately productive.

Compare Price (b) p. 132 and following; also, Baden-Powell, Part III.

(d) Another theory, which directs study primarily to poverty, holds unequal distribution responsible for commercial distress. This theory is based upon the idea that supply and demand are not distinct phenomena, but essentially the same fact regarded from different points of view; that, for production and exchanges to proceed uninterruptedly and smoothly, there must be an equitable distribution of purchasing power, which the possession of produced commodities gives. When wealth is unequally distributed, a large class in the community is deprived of purchasing power. That portion of commodities which, if consumed at all, must be consumed by this class, finds no sale, hence what is termed an overstocked market makes its appearance, which results in decreased production or commercial depression; this, taken in connection with the use of credit in modern industries and the fact that undertákers have omitted this certainty of decreased sales from their calculations, produces that state of affairs which lead to panics. According to this theory, centralization of purchasing power is marked as the ultimate cause of panics, and depressions in business, while, speaking comparatively, it is but the reverse side of poverty.

There are two phases of this .theory; the one includes no legal change in the holding of property in its proposed remedy; the other sees in the existing laws of property the conditions which invite centralization of wealth and demands reform in the law of property.

Compare the Open Letters from Rodbertus to von Kirchmann, printed under the title, " Zur Beleuchtung der Socialen Frage, Berlin, 1875; also, Progress and Poverty, by Henry George.

(e) There remains still another theory of crises which, unlike those above stated, does not address itself to the controllable factors in industrial society. The basis of this theory is an observed constancy between the recurrence of crises and the periodic appearance of the sun spots. This remains but a coincidence and does not reach the grade of a scientific explanation, until the chain of influences be traced between the sun spots, the abundance of rain, or some other meteorological fact which may be said to cause periods of good and bad harvests. The rule which would arise from a proof of periodicity of years of scarcity is, that expansion and contraction of credit should be made to conform with years of scarcity and abundance.

Compare, Article by Prof. Procter, in Scribner's Magazine, June, 1880.

THE MIGRATION QUESTION.

§ 65. The migration question, in its broadest sense, includes all those economic and social questions which arise from the right granted to each individual to change at pleasure his place of abode. The line of study adopted is the following:—

(a) What is the origin of the right of migration? Does the right of immigration rest upon the same basis as that of emigration and the change of one's abode within his own country?

(b) What causes may be assigned for migrations, especially those of the nineteenth century?

(c) What is the economic effect of migration, considered with regard to the country losing as well as to the country gaining population?

(d) What is the ethnological effect of migrations? This question should be discussed, first, with regard to the mingling of peoples of the same civilization; and second, with regard to the mingling of peoples of different civilizations.

(e) What is the true policy of the United States with respect to immigration?

The bibliography of this question is somewhat extended, but, with a few exceptions, quite unsatisfactory.

Compare Histoire de l'Émigration Européenne au XIXe Siècle, by Jules Duval; De la Colonisation chez les Peuples Modernes, by Paul Leroy-Beaulieu; Sanderson, Views and Opinions of Eminent American Statesmen on Foreign Immigration. Bromwell, History of Emigration to the United States, 1815–1855. Bayne, Irish Emigration. Friedrich Kapp, History of Immigration, 1870. Roscher, §§ 259–263. Additional references may be derived from Wagner, p. 408.

THE TRANSPORTATION QUESTION.

§ 66. The question of transportation belongs partly to the study of Economy and partly to that of Finance. For the United States as yet, however, it is purely an economic question, and the basis of the question, namely, the effect of tariffs upon the value of goods transported, must ever remain a part of Political Economy. A consideration of transportation suggests three separate inquiries.

(a) An analysis of the service rendered by that part of industrial society engaged in the transportation of goods.

There are three classes of business men engaged in the transfer of goods: (1) Those who have property in the goods or merchants in the widest sense. (2) Those who control the mechanism by which transfer of property is effected. This function is partly governmental and partly undertaken by brokers and bankers. (3) Those who control the mechanical appliances for the transfer of goods.

(b) The economic question involved is, how far may free competition be regarded as a guarantee that the various services connected with transportation will be rendered to society in exchange for services requiring a like quantity of labor and sacrifice, in the other departments of industrial activity?

(c) The practical question involved is, in those cases where it is discovered that free competition fails to execute the mission which English Economy has assigned to it, what method may be adopted to provide that these services shall be rendered at their normal price, cost of production price being accepted as normal?

The practical question which is at present agitating the public mind has arisen with reference to the railroads. This business may be taken as the type of those corporate businesses the abuses in which suggest the necessity for some legal control. Many plans have been proposed for freeing the railroad system of the abuses which are almost necessarily attendant upon it as at present organized. These plans are reducible to three distinct principles: (1) Regulation by law of the transport business while it still remains upon the private corporate basis. (2) Regulation of tariffs by means of competition of railroads owned and controlled by the State. (3) The creation of a monopoly in favor of the State in all inland transportation.

The bibliography of this question also is extensive, but for the most part confined to short articles upon particular points. For the tendency of public opinion in Europe on State management, see Leroy-Beaulieu, Tratié de la Science des Finance, vol. I., p. 23; for considerations in favor of this policy see Rau-Wagner, Finanzwissenschaft, (vol. V., of the Rau-Wagner series) §§ 243-273; for the management of French railroads, see Gournerie, "Études Économique sur l'Exploitation des Chemins de Fer"; for a statement of the question in the United States, see Report on the Internal Commerce of the United States, 1879, by Joseph Nimmo; also report of Senate Committee on Transportation, Dec. 4th, 1873, Senator Windom, chairman.

SOCIAL AND INDUSTRIAL REFORM.

§ 67. The purpose of social and industrial reforms has ever been to ameliorate the condition of those who, living in the presence of plenty and comfort, have developed wants which their means do not permit them to satisfy. Wherever class distinctions have been strongly marked, those conditions have existed which invariably give rise to social agitation. Such agitation has its origin at times in the attempts on the part of the lower classes to secure for themselves the privileges of the higher, at times also in the exercise of charity on the part of the upper classes. The experiments which have been tried are numerous and may be advantageously studied as throwing light on the question which claims present attention, namely, the question of ameliorating the condition of the laboring classes.

All plans for effecting social and industrial reformation are subject to a general classification under two heads, according as they are in harmony with and subordinate to the existing legal basis of industries, or as they look toward a change in the law of property and in the accepted governmental functions.

A.

Those endeavors toward social reform in harmony with existing law are distinct as regards their origin:

(a) Such as have originated in legislative enactment or private charities.

(1) Enactments for the protection of the laboring classes; as factory acts, acts regulating the hours of labor, protecting women and children, enforcing education, and the like.

(2) Enactments which have for their purpose the extinction of the vagabond class, including acts against idleness and vagabondage; acts providing reformatory schools and prisons; acts which endeavor to check increase in the pauper class.

(3) Institutions established, either by the State or by private charity, for the purpose of relieving suffering and of providing means of subsistance to such as are unable to procure it for themselves. Here is included a study of the poor laws, public and private charities, state and corporate insurance companies established in favor of the laboring class.

For study of the Poor Laws of England, see A History of the English Poor Laws in connection with the legislation and other circumstances affecting the condition of the people, by Sir George Nicholls, 1854; *ditto* for Scotland and Ireland, 1856; also, Whately, Economy of the Poor Laws.

For New England Poor Laws, see North American Review, v. 106, p. 483. For history of the Factory Acts, see English Factory Legislation by von Plener, 1873. Various reports on public charities, prison reforms, tramp laws, &c., are here of importance.

(b) Such as have originated with the laboring classes themselves. All attempts at self help have been through association, for the purpose either of mutual assistance and insurance against accident, or of access of strength through organization and unity of action, that the advantage in contracting for wages may not always be on the side of the employer, or for the establishment of communities where the purely economic principle may be subordinated to some other principle of action.

(1) Of the first form of association there are many illustrations, as mutual insurance companies, both accident and life: brotherhoods; building associations; laborers' credit banks, and the like.

(2) The second form of association brings up the broad question of Gilds and Trade Unions. The best authorities for the study of these unions are, Brentano, Howell, and Thornton. Cairnes (b) Part II., chs. III., IV.

(3) The third form of association introduces the study of communistic societies which conform outwardly to the law of the state where they exist, but for their internal affairs make and execute their own laws. Compare History of American Socialism, J. H. Noyes; Communistic Societies in the United States, C. Nordhoff; Communism in America, Henry Ammon James; Utopia, or schemes for social improvement, Kaufmann.

B.

A consideration of those plans for granting to the laboring classes a larger share in the world's product, which call for a change either in law, in practice of governments, or in methods of undertaking, introduces a study of Socialism and Coöperation.

(a) Socialism is with great difficulty defined. As an economic idea, it is simply the opposite of individualism; as an economic system, it is a revolt against the doctrines of the Manchester school; judged from the standpoint of the organization of industries, it may be said to embrace all those plans for organization based upon the exercise by the state of the coercive power with which every state is clothed. A study of socialism must be historical, analytical and critical.

Reference books for the study of socialism are, Communism and Socialism, by Woolsey; Geschichte der Socialen Frage, Centzen; Die Deutsche Socialdemokratie, Merring; Die Quintessenz des Socialismus, Schäffle; Socialism, R. D. Hitchcock; Socialism, Kaufmann. For a description of the Socialists of the Chair, see Contemporary Review, February, 1881.

(b) By Coöperation do we understand such an organization of industries that the employing class as distinct from the employed class, shall be made to disappear, or, what amounts to the same thing, an organization of industries in which the undertakership shall reside with the laborers themselves. The existing law of property need not necessarily be changed to realize this idea. It is doubtful if the importance or the magnitude of this idea is generally understood. A realization of it would necessitate as complete an overturning of industrial methods and economic conceptions as was effected by the transfer of productive industries from the basis of slave labor to that of free labor. In case the ideal of coöperation meet general approbation, the practical question of the present is, what steps may now be taken toward that education without which the coöperative plan may never be realized.

Compare Fawcett(a)B II.,ch.X. Holyoak, History of Coöperation. Mill, B. IV., ch. VII.; and Cairnes (b) Part II., ch. V., §§ 8. 9, 10. Brassey, Foreign Work and English Wages, ch. XI., also Lectures on Labour Questions, ch. VI.

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